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# **East Europe Report**

**ECONOMIC AND INDUSTRIAL AFFAIRS**

**No. 2112**



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# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

### BRIEFS

CEMA CORN COORDINATION CENTER--A coordination center was established at the Agricultural Research Institute of the Hungarian Academy of Sciences at Martonvasar to coordinate the improvement of corn and production of seed grain of the CEMA countries. In the course of the statutory meeting representatives of the participating countries--Bulgaria, Czechoslovakia, Poland, Hungary, GDR, the USSR and Yugoslavia--listened to reports on mutual achievements in the field of improved relations and accepted the research program for the next 5 years. The work plan for the coordination Center for this year was also worked out. The goal of the Center is that in addition to bilateral cooperation, the participating countries should pool their financial and personnel resources to produce hybrids which would meet the special requirements of the member countries. [Budapest MAGYAR NEMZET in Hungarian 4 Mar 81 p 5]

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## SEVERE ECONOMIC LOSSES CAUSED BY CORROSION OF METALS

Sofia TEKHNICHESKO DELO in Bulgarian 7 Feb 81 pp 1,3

[Article by Eng Mario Doynov, deputy section chief of technical development of the Central Council of the Scientific and Technical Union [NTC]: "Corrosion Control"]

[Text] Every country must take into consideration the effects which natural decay of metals, under the influence of atmosphere and different active media, have on its national economy. The constant growth of losses caused by corrosion is determined by several factors. In the first place, it should be noted that nowadays the use of metals is rapidly growing. The prognostic curves indicate that in the years to the end of the century the world's needs will grow even further. The data for our country show the same trend.

Second, metals are used now in media with every higher aggressiveness. With the development of the chemical industry, steel industry, transportation, power production, supply of homes and industries with centralized heating systems, mechanisation of agriculture, oil production and refining, and many others, objective conditions are created for the spreading and acceleration of corrosion processes.

A third important fact is production intensification, which is usually achieved by increasing the temperature, pressure, and concentration of the reagents. However, all these factors accelerate the corrosion processes.

#### Objective and Subjective Reasons Exist

For objective and subjective reasons, the magnitude of economic losses is underestimated, and this underestimation impedes the introduction of effective protective measures. For instance, specific and accurate information about corrosion-related losses and the effectiveness of the used protective means is often insufficient. In many other countries, as well as in ours, there are no economic and managerial mechanisms in this field.

Accurate computation, or even general estimation, of losses caused by corrosion is the basis for any economic examination of their influence on individual industrial branches and on the economy as a whole.

The experience of a number of countries which examine their losses caused by corrosion on a national scale show that these losses represent several percentage points of their national gross income. These amounts are commensurable with the capital investment in some of the largest branches of their national economy.

In 1979, for the first time in our country, on the initiative of the Central Council of the NTC--the Committee for a Drive Against Corrosion made an inventory of losses caused by corrosion.

The inventory was taken as a public service activity with the energetic support by the party, state, and economy management in ministries, departments and economic organs.

#### Principal Goal

The principal goal was to analyze the corrosion processes (in selected industrial enterprises in typical branches of the national economy), to obtain general data of metal losses, maintenance expenses of machinery and equipment, amounts allotted for protection of manufactured production, and a number of other economic disadvantages. The aim was to offer measures for increasing the effectiveness of the political and scientific-technical policy of our country in protecting metals against corrosion; to define more accurately the most common types of corrosion (gaseous, chemical, electrochemical, biological), as well as the most common forms of decay (general, local, selective, etc.) and, at the same time, to try and make files of the personnel in the country dealing with the problems of corrosion, and to establish their education and professional training.

On the basis of the methods applied in the USSR, Hungary, the United States and other countries a number of materials for taking the inventory were developed: a questionnaire, methodological instructions, a form for result analysis, and concrete managerial instructions for the practical execution of the study stages.

The inventory was taken in industrial, construction, and transportation enterprises.

#### Basic Data

The basic data obtained on a national scale encompass 4.7 percent of the industrial enterprises in the country and 2.3 percent of the total amount of the basic production funds. They show that the average annual metal loss is 400,000 tons. In the statistical calculations, the relatively different shares of losses in separate branches as well as the examined funds in these branches were taken into consideration, as well as the fact that enterprises with considerable corrosion processes were selected.

The means for protection against corrosion of the basic production stock, as well as the protection of the metal production were examined. Together, the expenses of the corrosion caused losses add up to 400 million levs. It should be noted that despite the considerable amounts involved, a sufficient high protective effect has not been achieved. This means that a great part of the methods and materials for protection against corrosion are applied impractically, and in some places, even incorrectly.



There is hardly any enterprise with an efficient, permanent operation system for control of corrosion processes. This impedes the implementation of optimal scientific protection and accurate prognostication of the corrosion resistance of machinery and equipment. Usually, losses caused by corrosion are not reported and not taken into consideration in long-term planning and development of protective systems for the basic stocks. This is one of the main reasons that an aim of the study was not clarified completely--identification of the most common kinds of losses caused by corrosion and decay.

The reason for this situation should be sought, in the first place, in the comparatively low educational and training level of the people who deal with these problems. The personnel with higher education constitute only 6 percent, and the majority of them do not have a special training or retraining in the problems of corrosion. This picture is not equal to the situation in the advanced countries.

According to the study, the average annual metal losses caused by corrosion in our country constitute about 2.5 percent of the national income (this amount corresponds to the data of many other advanced countries).

#### National Program for Metal Protection

On the basis of the inventory results, a great number of measures were outlined for scientific, designer's, and production activities in the field of protection from corrosion, and these measures were reflected in the national program for metal protection for the Eight Five-Year Plan. Now, it is necessary that they be included in the five-year plans of the respective departments and be fulfilled.

Through the Scientific and Technical Union (system for post diploma studies) and the Higher Chemical and Technological Institute, Sofia (School for Corrosion and Metal Protection in the Chemical Industry), measures were taken for a systematic improvement in personnel training.

Work has started in the Ministry of Chemical Industry to create a departmental system for recording of losses caused by corrosion, and control and analysis of corrosion processes. According to the national program, all ministries and departments which have corrosion caused losses should follow the example of organized struggle against corrosion by creating groups of experts to coordinate this activity and the respective statutes. The ultimate goal to be achieved by this complex program is to reduce corrosion caused losses by 25 percent.

About 100 experts, who work with the corrosion problems, performed their public service by taking part in the first study of this nature in our country, and several hundred more participated in its various stages. Without this enthusiastic and competent activity of different people, it could hardly have been accomplished successfully.

The inventory of losses caused by corrosion should be followed by periodic studies by competent state bodies in order to create solid preconditions for fulfilling the approved national program of metal protection against corrosion in the Eighth Five-Year Plan.



## MAIN GOALS OF 1981 STATE BUDGETS DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 9 Jan 81 p 4

[Article by Eng Belo Bosak, Federal Ministry of Finances: "State Budgets for 1981"]

[Text] In mid-December the Federal Assembly discussed and approved the law on the state budget for the Czechoslovak federation for 1981. The sessions of the Czech and Slovak National Councils also discussed and adopted appropriate laws on state budgets for both republics. The following article presents information concerning the main targets and tasks of the budget policies for the current year.

The basic political and economic guideline for the state budgets of the CSSR was the decision of the 18th Session of the CPCZ Central Committee. In linkage with the state plan the state budgets represents the steps stemming from the Set of Measures for Improving the Planned Management System of National Economy After 1980, accentuating greater intensification and efficiency in the creation and utilization of our resources on the basis of a balanced comprehensive financial plan. In this conjunction the budgets for 1981 have been conceived as an organic factor of the proposed Seventh Five-Year Plan now in preparation, as reflected in realistic but also demanding programs concerning their revenue and expenditures, and in the entire financial management of the production and nonproduction spheres.

### Continuity and New Factors

The state budgets are linked with the targets, tasks and the fulfillment of the state budgets for 1980, thus representing continuity in the socioeconomic development in the financial and budgetary area. As a result, the essential programs and tasks of our budget policy, especially in terms of efficiency and the impact on intensification of the economic management, are, in view of the actual development in 1980 and other realistic potentials stemming from the plan, reflected also in the tasks for 1981. Together with the exchange plan they represent the tasks of the operational state plan and of the state plan for scientific and technological development. Their revenue and expenditures are balanced on the basis of a comprehensive financial plan. By the same token, the state budgets maintain the already achieved level of our living standard, particularly in the social consumption of our population. In agreement with the concept of the state plan, spending in that area is rising at a slightly lower rate than during the Sixth Five-Year Plan.

A realistic solution of current economic problems calls for uncompromisingly ensured growth of the creation of resources and their efficient utilization, particularly on the basis of comprehensively increased efficiency of our national economy, intensified economic consciousness in every area of management, and better quality of work. If our financial policy continues to enforce this basic strategy, an important role will be played in the future by economic pressures exerted on the economic sphere by means of programs in the development of costs and profits, in accelerating the turnover of the supplies, in more advantageous exports, and in restricting some unprofitable expenditures.

A new factor reflected also in the development of financial relations and proportions is the implementation of the Set of Measures launched in 1981. More intensive methodology and more thorough proportionality of the economic development and of the khozrashchot management are aimed primarily at the achievement of better final results in our national economy. An important role in the enforcement of this objective must be played mainly by the creation of a closer linkage of material incentives--be they personal, collective or enterprise-oriented--in the fulfillment of tasks to upgrade the efficiency of the production and foreign trade and to satisfy our society's needs in the planned structure. This presupposes more efficient application of the khozrashchot and a better economic mechanism, including an improved financial system--financial economic tools and principles of management. A broader space created for their function within the framework of the planned management system must be utilized to the fullest for the solution of all problems existing in the economic development.

#### Five Preconditions

In harmony with the state plan the main objectives and goals of our financial and budgetary policies in 1981 are focused on a more vigorous enforcement of intensive factors in economic growth and on its basis, on the growth of efficiency. They are based on the following premises:

-- The profits of economic organizations will rise by Kcs 6.05 billion, i.e., by 5.8 percent over 1980, and will be achieved by the share of lower expenditures in the increment of profits from our domestic economy amounting to 62.2 percent; thus, the share of the growth of outputs will be 37.8 percent; by total costs reduced by 0.45 percent, of which material costs will be cut by 0.21 percent, wage costs by 0.58 percent, and financial costs and expenditures by 2.55 percent; by higher profitability of costs at 0.39 of a point and of value added at 0.62 of a point.

-- The resultant balance in the relation of economic organizations to the state budget, expressing their total contribution to the financial support of our societywide needs, will amount to a total of Kcs 62.15 billion, which is 2 percent more than in 1980 (if we exclude the effect of the economic tools of foreign trade, it will be up by 9.1 percent);

-- The turnover of supplies will be accelerated in industry and construction in general by 1.7 day;

-- The statewide noninvestment outlays for scientific and technological development will amount to Kcs 16.36 billion; the share of the outlays from the state budget will be Kcs 6.64 billion, which is 2.3 percent more than in 1980;

-- Allocations from the state budget will be Kcs 47.3 billion of the total of Kcs 162.7 billion for financial requirements for capital investment; the share of the allocations from the state budget will not exceed 13.3 percent in capital investment of economic organizations whose total financial requirements amount to Kcs 129.7 billion.

### Frugality Always and Everywhere

Measures and objectives of our budget policies aiming at further intensification of economic consciousness in the production and nonproduction areas are included in state budgets so as to reduce the tensions developing between financial resources and needs. They constitute an organic link to the measures for more efficient utilization of our financial resources in 1980. Together with the measures for more efficient management to be implemented in 1981 and in the following years of the Seventh Five-Year Plan, they represent part of a systematically intensified amended system. At the same time, the new measures for more efficient management must be functionally enforced according to specific conditions and their integration in a comprehensive system of management must be resolved in a broader context of the implementation of the changes stemming from the Set of Measures.

### What Are the Most Essential Measures for 1981?

1. The effect of a 2 percent increase in wholesale prices of fuels and power resources is not reflected in the operational plans and budgets. To mitigate potential hardship in branches with high fuel and power consumption, an amount exceeding 0.14 percent of the total costs has been included in the plan and reflected in the budget. Moreover, modifications of tariffs for transport aimed at more efficient utilization of railroad transportation have not been considered in the plan of costs and profits for transport organizations.
2. Provisions for sanctions imposed for violations of contractual and delivery obligations and for breach of contractual economic relations (such as fines, penalties, charges for delay, etc.) have not been included even here among the items of financial costs.
3. Total costs of major repairs and regular maintenance of highways may be increased by no more than 1 percent above the plan and budget for 1981.
4. The level of costs stipulated in the 1980 budget for noninvestment outlays of the state administration is maintained, and the savings stipulated by Resolution of the CSSR Government No 312/79 are projected consistently.
5. When stipulating the amount of the projected losses of housing management enterprises, average outlays for repairs of one housing unit must not be substantially increased over the 1980 costs.

6. Expenditures (costs) for travel, including business trips abroad, and for representation, refreshments, gifts and other outlays thus far restricted must not exceed in 1981, in principle, the level of limits set for 1980 according to the imposed limits, restricted costs of representation will be reduced in 1981 by a total of 25 percent as compared with the 1980 limits, namely, in a differentiated fashion according to the importance of representation for individual branches and fields.

#### Trends in Outputs and Profits

A vital financial resource determining to a considerable degree the balance of the state budgets is the fulfillment of the plans for outputs and profits, and linked with it, also the reduction of total costs.

Profit-making planned in the proposal for 1981 proceeds from the tasks of individual ministries in the production and possibly in other areas typical for their basic activities in the material sphere.

The dynamism of the material plan in the branches of secondary production is marked by a growing tension stemming from the supply of raw materials and materials, particularly those from imports. This corresponds with the financial effects projected into the area of the financial plan.

In direct linkage with tasks stipulated in the material plan the output indicator characterizes corresponding trends in the area of the financial plan. The rate of the development is here basically decelerated, which is evident particularly in the Ministry of Foreign Trade, in the branch of metallurgy, in the Ministry of Fuels and Power, and all the ministries of the CSR and the SSR. The planned rate of development has been achieved in certain branches with higher demands on costs, as for instance, in the branches of the Federal Ministry of Fuels and Power where the total share of the costs has been raised by 2.90 percent, and the planned increase of outputs by 0.4 percent.

In the table I present the general characteristics of the planned development in profit-making according to its basic components.

The relatively low rate of growth of output is linked with the declining dynamism in the production of goods, which reflects the current problems connected with the difficulties in supplying raw materials for the vital branches of our national economy, above all for the metallurgical and chemical industries. Our national economy does not react with sufficient flexibility, accuracy and promptness to the changes in the situation by switching more readily to qualitatively higher production with lower material consumption, which could make up for the shortfall in production.

#### Data Concerning Out Standard of Living

In terms of our standard of living it is presumed that the following objectives will be met in 1981:



-- The noninvestment costs for our population's social consumption in societywide services and programs for the population will reach Kcs 133.81 billion, which is Kcs 5.04 billion above 1980. This amount represents Kcs 8,692 per citizen, in other words, Kcs 292 more than in 1980.

-- The expenditures for social security within the above-mentioned costs are raised by Kcs 1,843 million (i.e., 2.6 percent), for education by Kcs 790 million (i.e., 3.7 percent), for health services by Kcs 750 million (i.e., 3.8 percent), and for culture by Kcs 47 million (i.e., 1.3 percent).

-- In addition to the above-mentioned expenditures to be covered from state budgets it is presupposed that organizations will expend Kcs 4.58 billion for social consumption of our population.

-- The sum total of direct aid paid by the state or state organizations to families with children in 1981 will amount to Kcs 34.51 billion (against Kcs 32.75 billion in 1980).

-- The outlays from social budgets for housing construction and for reimbursement of housing management enterprises for losses sustained in 1981 will amount to Kcs 23.64 billion, which is Kcs 0.18 billion more than in 1980; it is presupposed that by the same token 110,000 housing units will be completed in 1981 by comprehensive housing construction.

-- The deliveries of goods to the retail network will amount to Kcs 270.8 billion, or Kcs 5.2 billion more than in 1980; the average sales tax charged for those deliveries will amount to 25.1 percent and negative sales tax to Kcs 7.4 billion (as compared with Kcs 7.2 billion in 1980).

-- The state budgets will cover price grants and allocations related to our standard of living and amounting to Kcs 14.6 billion (Kcs 14.3 billion in 1980). This concerns primarily appropriations for procurement prices of milk and cheese (amounting to Kcs 6.3 billion), cattle for slaughter, poultry and fish (Kcs 5.6 billion), contributions toward the price of heat supplied to our population (Kcs 0.6 billion), contributions to cover the losses of mass transit operations (Kcs 2.1 billion) and others.

-- The cash income of our population will be up by 3.3 percent, i.e., income from wages by 2.6 percent and social income by 3.1 percent. The average income tax on wage earnings will amount to 17.16 percent.

-- It is presupposed that our population will collect 96.8 percent of total income. Savings deposits will be up by Kcs 8.5 billion and will amount to a total of Kcs 164.1 billion; in conversion per citizen they will amount on the average to Kcs 10,600.

-- The balance of loans to our population will be Kcs 34.2 billion, i.e., 20.8 percent of total savings deposits.

When planning deposits for our population's societywide consumption, however, the decisive consideration is a guaranteed growth of the standard of living in accordance with our national economic potential.

**Volume and Dynamism in the Growth of Output and Profits of Economic Organizations**  
(for the CSSR - in Kcs billion)

	Proposal of financial plans for 1981	Difference as compared with anticipated reality in 1980	Index 1981/1980
Outputs	1056.0	+26.1	102.5
Total costs	953.6	+19.2	102.1
Profits	104.6	+ 6.1	105.6

The growing volume of outlays for social services and programs benefiting our population reflects also the fulfillment of new tasks. For example, there is an increment in costs for the further development of the Czechoslovak educational system, higher material expenditures in the chapter of the educational system combined with regulations concerning the standard of dining services and guaranteed growth of wages payable in agreement with the state plan, introduction of modern medical services and the necessary outlays for repairs and maintenance of landmarks, theaters, museums, galleries and other cultural institutions.

**The General Structure**

The total volume of the state budget including the budgets of national committees will amount in 1981 to Kcs 293 billion. Under conditions comparable with 1980 the volume of the budget will reach Kcs 302 billion, which represents a 1.8 percent increase. Moreover, these amounts reflect the total effect of the implementation of the Set of Measures, because, in accordance with its objectives, the financial base in the enterprise area will be intensified according to the plan and thus, its share in financing their needs will be increased and the share of the budget reduced.

Due to concurrent reductions of payments contributed by the economic organizations to the state budget and grants to such organizations from the budget, certain changes have taken place in the structure of total budget income and expenditures. Nevertheless, that part of income—85.6 percent—representing payments and other income from social organizations will continue to be decisive in the future; 39.7 percent of that amount is derived from payments made by economic organizations and 32.4 percent from sales taxes.

As for the expenditures, 18 percent is earmarked for allocations to economic organizations, 45.7 percent for investment and noninvestment outlays for the educational and medical systems, social security and other social services and programs for our population; 9.4 percent of the expenditures will go for defense,

security and administration, and the rest consists of other budgetary expenditures for the economy, scientific and technological development, and financial and technical services.

The tasks stipulated in the state plan and state budget for 1981 in the development of the production area as well as in the sector of the standard of living represent a demanding economic program for the initial period of the Seventh Five-Year Plan which may be fulfilled only with work of high quality and efficiency, and by better and more efficient management. From this perspective every worker, and particularly every manager, should reassess to a far greater extent the work performed thus far, and consider what and how it may be improved not only for personal benefit, but also for the benefit of our entire society.

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## POOR CROP ROTATION, EXCESSIVE CHEMICAL USE CRITICIZED

### Conference Discusses Harmful Effects

East Berlin NEUE DEUTSCHE BAUERNZEITUNG in German Vol 22 No 1, 2 Jan 81 pp 8-9

[Report by Wilfried Stephan on the annual conference on crop protection: "Crop Protection Is Not Firefighting—New Research Results and Development Trends Were the Focus of the 1980 Conference"]

[Text] The number of weeds, plant diseases and pests runs into the thousands. Losses in yield and quality which they cause every year in agriculture are reckoned in the billions by experts. In our case a large part of such losses is being prevented by the means and methods of crop protection. The fact that the emphasis in this respect shifted more and more from individual, mutually independent measures of prevention by the variety of lecture and discussion topics which were addressed at the annual conference on crop protection in Markkleeberg in the beginning of December.

### Fixed Systems of Crop Rotation Inhibit Harmful Organisms

Because 60 to 70 percent of the farming enterprises have not yet introduced any scientifically based, stable kinds of crop rotation, Prof Dr Karl Steinbrenner of the Research Center for Soil Fertility in Muencheberg, in his lecture using numerous analytic data, referred primarily to the phytosanitary consequences of this fact; excessive concentration of the primary crops on single rotation, too small pauses in cultivation, the decrease of biological activity in the soil. For grain this results, for example, in a concentration of grain nematodes, fungal foot disease organisms and of special weeds and grasses which in part substantially reduce yield, especially since nematodes, several fungi and weeds native to the soil can be directly controlled only with difficulty. Effective help is provided only by restricting the share of grain in crop rotation, by favorable preliminary crop planting and by regular alternation between monocots and dicots. Of all the varieties of grain, winter wheat is the most sensitive (see Table). The average between the best and worst preliminary crop on all sites shows yield differences of 20 percent for wheat.

The Muencheberg Research Center, together with scientists at Martin-Luther University in Halle, has now developed a method of structuring crop rotation which is easy to use. Using the modular principle, enterprises can thus establish efficient systems of rotation which are appropriate to their production conditions. A blotest for grain nematodes is being tested, similar to what is available for encysted nematodes on potatoes and beets.

#### Crop Control Is Simplified

The monitoring of harmful organisms and crops has been proven to be an effective method in making decisions about the necessity for, the scheduling and scope of control measures, using infestation standard values. In 1980 crop controls were implemented in 869 enterprises using this method for the first time; this was also the case, by the way, in field vegetable growing. It was possible to achieve substantial savings from case to case. Thus, in 1980 it was possible to show that there was a modest occurrence of the potato beetle, thus only 14,400 hectares had to be sprayed instead of 177,000 scheduled.

On the other hand, there are still routine decisions. Thus, several enterprises used Cresopur, which is not available in adequate quantities, on cleavers in rape although there was hardly any infestation. Such deficiencies are often justified by the high cost in time for assessing crop quality and for the documentation. Dr Peter Schwaehn of the Kleinmachnow Institute explained, among other things, how the work of the enterprise crop protection agronomists must be rationalized. It depends on their care, training and experience whether they can grasp all at once several revealing characteristics or factors. Uniform methods are presently being developed for that. The correct sequence of evaluation is extremely efficient. For example, if, after structuring the crop rotation system, fields which are especially endangered are carefully observed, then others are to be included (evaluation for decision) only if the standard infestation value has been reached.

In the future, time-saving standard values are to replace the criterion "harmful organisms per crop," thus, the number of infested crops per control line. "Feedback" from enterprise agronomists to crop protection offices must be speeded up by using a so-called rapid report form. In addition, there are plans to introduce more statistical methods which, for example, can be used to reliably predict the presence of insects according to the average temperature curve.

#### Combination of Mechanical and Chemical Aspects

Today, in many places, for reasons of labor management, there is far less hoeing and harrowing than there was years ago, too little, for example, in the case of rape, as shown by analyses. Dr Hugo Otto of the Witzelroda LPG (agricultural producer cooperative), Kreis Bad Salzungen, made reference to the extensive spread of weeds which are hard to control chemically, such as cleavers and cockspur grass, in the central and southern bezirke—a consequence of getting rid of others, after long years of using favorite or unilateral herbicides—and explained that cleavers in potatoes can be controlled very effectively with combined ridge harrowing or straight-line fine harrowing. Of course, it is necessary to wait precisely for the stage of the third to fourth leaf whorl.

According to Dr Johannes Haas, Grossschwabhausen LPG, Landkreis Weimar, a substantial reduction in cleavers was brought about in concentrated grain cultivation by the consistent rotation-based alternation of herbicidal agents together with thorough stubble treatment and timely fall plowing. The still widespread opinion that quackgrass is increased by discing equipment was refuted by Dr Karin Mueller of Martin-Luther University in Halle. The results of her experiments, which dealt in particular with the biology of quackgrass, proved that the use of graminicides after discing the stubble a second time is substantially more successful than spraying alone. Rhizomes, which had thus been stimulated to germinate, were for the most part eliminated.

#### Highest Effect With Every Operation

The differentiated treatment of crops, which is based on factors of field, crop type and weather, is becoming increasingly more important, for after all it is necessary to guarantee a very good effect with every measure. Thus, Gudrun Guenther of the Kleinmachnow Institute set up a total system of weed control in early, semi-early and late carrots. But, this was also the goal of the recommendations made by Dr Bernhard Pallut, Kleinmachnow Institute, concerning the use of herbicides for sugar beets. He recommended having a second treatment with betanal after the first one only if more than two weeds per running meter of the row of beets are left. If these are to be properly controlled, then 3, otherwise 6 liters/hectare are required. If there is a heavy growth of camomiles and polygonums, of annual panicle and mercury or should there be late weed growth, then tank mixtures of 6 and 3 liters/hectare of betanal, respectively, and 0.75 to 1 kg/hectare of elbatan for the second spraying proved to be effective. In this connection, the scientist objected to the reduction of in-row spraying in the case of single applications of betanal. Equipping with in-row spraying devices will permit the application of at least 30 percent of this preparation in this way in 1981.

#### Tracking Down Resistance

It can be observed worldwide that insects, fungi or weeds develop "survival strategies" in respect to agents which have been used to control them over a long period of time. Certain defense mechanisms, for example, prevent the chemical compounds from penetrating the cells. Some weeds are said to react by delaying germination and thus escape the effect of the herbicide. Scientists at the Kleinmachnow Institute presented the results of research on this issue. According to this, resistance in weeds in the GDR is so far only negligible, prevention by constant monitoring and alternation of herbicides is nonetheless advisable. For the potato beetle an uncomplicated method was developed with which sensitivity to insecticides can be tested. A difficult problem—the progressive resistance of many fungi to fungicidal agents of the benzimidazole group—was overcome with the development of the new preparation bercema-bitoses. It proved to be helpful in the control of mildew in barley. Among others, Prof Dr Hartmut Kegler, Institute for Phytopathology in Aschersleben, illustrated another aspect, the desired resistance of crop plants. Virus diseases can cause substantial losses in yield: yellow stunt which occurs with increasing frequency in barley, wheat and oats,

for example, as high as 40 percent. A number of preventive measures are being considered—the annihilation of the virus carrier (mostly aphids) and their intermediate hosts, proper choice of site, also high crop densities and freedom from weeds in the case of beets... Help over the long haul must be provided, however, chiefly by breeding resistant or less sensitive varieties.

#### Influence of the Preliminary Crop on the Yield of Winter Wheat

Site Unit	Preliminary Crop Planting	Share of Cultivated Area (in percent)	Yield (decitons/hectare)	Yield relative
D <sub>2/3</sub> <sup>N</sup>	after leafy crops	56.8	25.59	100
	after one crop of grain	21.8	31.67	90
	after second crop of grain	11.4	29.93	83
D <sub>4/4</sub> <sup>N</sup>	after leafy crops	69.4	37.22	100
	after one crop of grain	16.0	35.80	96
	after second crop of grain	14.6	34.47	93
Al <sub>3</sub> ; D <sub>6</sub> <sup>S</sup>	after leafy crops	76.3	45.36	100
	after one crop of grain	17.2	42.80	94
	after second crop of grain	6.5	39.60	87
Loe <sub>3/4</sub>	after leafy crops	83.4	45.90	100
	after one crop of grain	11.4	45.70	100
	after second crop of grain	5.2	36.93	80

#### Better Scientific Research Needed

East Berlin NEUE DEUTSCHE BAUERNZEITUNG in German Vol 22 No 1, 2 Jan 81 p 9

[Interview with Prof Dr Hans Joachim Mueller, director, Institute for Crop Protection Research, Kleinmachnow: "Bringing Science Into the Fields"]

[Text] [Question] With over 1,200 participants the last annual crop protection meeting received the greatest response of all the previous ones. How do you account for that?

[Answer] Well, in the meanwhile our special areas had available an imposing nucleus of specialists in the crop production enterprises, the agrochemical centers, the scientific and state institutions. Fortunately the greatest part of them shows increasingly greater interest in their own continuing education. Moreover, people expected something. From the invitation of the Agricultural Association and the Academy of Agricultural Sciences it was clear that, above all else, the most recent results of studies from science and practice were to be presented--specifically, the contribution of crop protection research to increase yields.

[Question] Was that not also the topic of previous meetings?

[Answer] To be sure, yet now it is a question of a new quality. For example, adjusting to the growing demands of the 1980's means for us putting scientific findings more rapidly into practice. At the meeting itself we tried to make a contribution to this, among other things, by lectures and a spirited exchange of experiences in special work groups. Besides, scientists at documentation tables gave an account for crop protection agronomists and ACZ [Agro-chemical center] representatives.

[Question] What was the focal point of the interest?

[Answer] There were often inquiries for new, even more effective preparations or for ways to cope with weeds and diseases which are hard to control using various kinds of spray. This is understandable because chemical agents--at present at least 380--were and are our most important trump card. On the other hand, those days are long since over, because crop protection was almost exclusively a "fire department against pests," thus a friend when in the worst distress. Thus, the knowledge we had to offer and also the interest of most of the participants was devoted primarily to future tasks. And these are: using our assets with greater effectiveness, thus cost-favorably, economically. New methods must be developed which will guarantee that from the very beginning under our conditions of production. Much can be accomplished by increasingly better control of harmful organisms and the crops. Crop control is becoming more important as a factor of intensification. Primarily in demand are prevention, more biological understanding, paying attention to all factors that promote yield and decrease losses and environmentally conscious activity.

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## ENTERPRISE EXPERIENCE WITH NEW PRODUCER PRICES EXAMINED

Budapest TARSADALMI SZEMLE in Hungarian No 2, Feb 81 pp 58-76

[Interviews with Miklos Magyar, economic manager of Ganz-MAVAG; Mrs Miklos Varkonyi, deputy economic manager of the Automobile Electric Equipment Factory; Laszlo Racz, economic manager of the Rayon Knitwear Factory; Karoly Kemmes, deputy managing director of the Red October Men's Wear Factory; Laszlo Horvath, managing chief accountant of the Domestic Worsted Spinning and Weaving Mill; and Ferenc Zaika, economic manager of the Machine Tool Industry Works by Katalin Bossanyi]

[Text] The new producer price system which was introduced last year certainly may be termed a milestone in promoting the capability of our economy to adjust to the world market. The first important reform of the price system took place in 1968. But since then, too, there has been a gradual need for the continuous development of the price system and its adjustment to new conditions. Of outstanding importance in this process was the change made in 1980, for it coincided with the world market challenge to which our enterprises and cooperatives must reply by guarding and strengthening their ability to compete. It is possible to respond to the increasingly strict conditions of competition and increase our export opportunities in a long-term capitalist recession only by constantly improving not only the volume of exports but also the yield through prices that better reflect actual costs and world market values, and by an enterprise policy that is considerably more flexible than the usual, and more inclined to be on the initiative.

The improvement of our foreign trade balance requires of all our managing units more economic exports than heretofore, more organized work, a rapid rate of change in the product structure, uniformly good quality, timely deliveries and not least of all, a well-considered price policy. What has been our experience in the first year? How well have the enterprises been able to adjust to the stricter conditions and to the world market standard? How can the world market price principle be applied to enterprises with different profiles and degrees of efficiency? Besides accepting the price system principles, what problems and bottlenecks did the enterprises have to deal with in the initial period and in "rolling ahead" the competitive price principle?

We looked for answers to these questions in three characteristic machine industry enterprises and three clothing industry enterprises.

## Ganz-MAVAG

Last year the production value of this enterprise with a long past and with 14,500 workers came to 5.7 billion forints and its profits to almost 500 million forints. Thirty percent of last year's production went for exports, in which exports to capitalist countries played an important role, amounting to 20 percent.

Miklos Magyar, economic manager, replied to our questions.

[Question] Ganz-MAVAG is living the years of its rebirth. Following the government's decision of 1977, it began a reconstruction program worth more than 10 billion forints, and at the same time it carried out, in the first years of the development, favorable changes in its management. We know that on an annual average it increased production 9 to 10 percent, capitalist exports increased fourfold in 5 years, and efficiency increased. Is the new price system accounting for the rapid increase, and how can an enterprise with such a heterogeneous product composition adjust to the world market standard?

[Answer] It is a fact that a rapid rate of increase in production is accompanied by many kinds of advantages. Indeed, most of the profits deriving therefrom carry latent possibilities for further advances. The rapid production expansion of Ganz-MAVAG in recent years has been accompanied by a transformation of the product structure, a cutting back in the scope of unprofitable products, and an increase in the export of efficiency in products sought for on the world market. That is, we not only sold more, but we also sold at more favorable prices and with improved foreign exchange earnings. The new producer price system promotes this enterprise policy despite a number of contradictions of a technical nature and procedural differences.

Thus on the basis of last year's \$40 million receipts we can count on a profitability of 10 percent. With the increase in the ratio of economic export and the development of new, modern products, we believe we can realistically count on applying for capitalist export development credits to the MNB [Hungarian National Bank], which is well known to have strict conditions. In the Sixth Five-Year Plan period, our reconstruction program will continue with bank credits, not state loans.

[Question] Despite the favorable profits for capitalist exports, you counted on rather moderate profitability for early 1980 at domestic starting prices. What was the reason for this?

[Answer] This is undoubtedly where the contradictions begin in the practical application of the progressive price system. I shall go right to the essence of the matter. Neither in technical content nor in price are the products we export and sell at home comparable. For example, when will it be, do you think, that MAV [Hungarian State Railways] will order a luxury train from us?

The problem is not only with comparability but also with the fact that the export structure changes very rapidly in terms of a given year. Most of our products--whether we consider railroad vehicles, water turbines, sluice systems, or complete bridge structures--is sold at competitive negotiations. These are called from



time to time, and the manufacture occurs mostly in the framework of a developing country, large state investments. Therefore, if we wish to adjust flexibly to the demands of the world market, we cannot start out by reckoning that if last year we sold x-number of water apparatuses, then this year we must sell  $x + 1$  if we want to advance in respect to the base.

The demand fluctuates for a given group of products, and in addition the capitalist price level for products intended for different purposes is not the same. On the other hand, in calculating domestic profitability, we had to proceed from the average. It is well known that the basis for estimating the starting prices in 1979 was the profitability and the foreign exchange earning index for capitalist exports. At that time we delivered motor-driven trains to Tunisia, locomotives to Bangladesh, and it was at the time that we manufactured steel structures for the Ujvidek bridge. Taken separately, each by itself and in comparisons with previous years, the sale prices were favorable, but the average foreign exchange output index was all in all relatively high. Therefore, in our domestic starting prices we could have accounted altogether for a capital-wage ratio profit of 1.5 percent.

The regulation made it possible to correct the starting prices on the basis of the 1979 balance. Because of achieving a more favorable export efficiency than expected, this represented for us a 1 percent growth. But the 1 percent increment was not spread over all our products, rather we emphasized the two product groups for which the 1 January 1980 price decrease would have represented a loss. With the 1980 domestic repricing of starting prices, as compared to 1977, we reduced the domestic price level an average of 9 percent for machine industry products, which represented a revenue loss of 450,000 million forints.

Besides the price reduction in machine manufacture--as a consequence of the Ganz-MAVAG vertical features--it also became possible for us to increase the prices for our metallurgical products on the basis of the indicator price index: this represented an increase of 220 million forints. Following changes in the official indicator prices on 1 April 1980, we raised the prices for metallurgical products by another 10 percent and the prices of machine industry products by an average of 3 percent on the basis of an expected improvement in profitability for 1980 or of favorable capitalist market price increases. Thus by the second half of 1980 we regained all we lost at the beginning of the year on starting prices, that is, from a revenue point of view and in total (although in a rather differentiated manner for individual product groups).

[Question] That is, in respect to domestic profitability you came out even?

[Answer] The matter is not that simple, for we were speaking only of revenue, of sale prices, and not of changes in costs and material-cooperation prices. Moreover, the manufacture and delivery running-in time of given products at our enterprise is long and can take 2 or, in case of larger orders, 3 years. This is true for exports as well as for the domestic market. And now I am winding my way back to the average profitability of capitalist exports, or to the limits of the average price level. In 1980 our exports came to \$40 million. Two-thirds of this consisted of railroad vehicles, one-third of spare parts or continuing deliveries

of Ujvidek bridge structures. This year we shall export \$48 million worth of goods, in which the most important element, however, will be motor train exports to New Zealand.

Now if we were to use the possibilities in the price system and as a function thereof, change domestic prices quarterly, and produce completely different types of products, this would confuse both our partners and the enterprise apparatus. Therefore, we decided to change domestic prices for end products only on the basis of a given year's balance and request that we be given accounting possibilities for a longer period of at least 2 years. The advantage of the 2-year period--were we given such an opportunity--is to make it easier to follow the price movements of products that require a long running-in time and to conduct a more balanced price policy domestically. This becomes all the more understandable if we consider that in January we will be contracting for 1982-1983.

In summing up the experiences of the year, we sense more and more the many problems of the new price system, which in some cases appear to be only of a technical nature. Such, for example, as far as we are concerned, is the prescription of the "dual limit" which makes the domestic price mechanism very complicated, extremely administration-intensive, and also ties down a disproportionately great amount of intellectual capacity. Of the two limits, it is particularly the calculation of the enterprise price indexes which causes great difficulties that appear unsolvable, even after much mental labor, not only in our enterprise but also apparently in the other machine industry enterprises which manufacture large single pieces of equipment and investment goods. We have been granted a temporary exemption from this requirement, but the Price Office continues to adhere to its position that beginning in 1981 Ganz-MAVAG, too, should develop and introduce its measurement of enterprise price-level change.

A general problem of another nature, which in my judgment unconditionally requires a solution, is the fact that the price mechanism makes it more difficult to carry out a dynamic expansion of exports. To appear on the capitalist markets with new products or significantly to increase the market share is possible under very frequently keener competitive conditions only by undertaking great sacrifices. This can be a price sacrifice--the use of the so-called "competitive price" in the years the product is being introduced or pushed ahead--or the granting of such advantages to the buyers as bring about additional costs. Both of these mean that in growing exports the attainment of price increases and increasing export profit is an unrealizable requirement in many cases. Thus we must in these cases either give up the possibilities of such transactions, or if we commit ourselves to transactions which mean growing exports, we must increase by several times the price or cost sacrifices as compared to normal market risks because of the multiple penalty inflicted by the price mechanism through prices that can be realized domestically.

One can readily see that there is another side to this: enterprises that cut back their exports generally can achieve price increases more easily with their remaining exports and improve profitability. I regard it as a contradiction, however, that the price mechanism specially "rewards" this by the multiplication of domestic prices. I am confident that the appropriate authorities will find the solution to this contradiction as soon as possible, for otherwise we can expect nothing else

but that the new price mechanism will exert an influence differentiating more and more in a direction contrary to its main goals.

[Question] Incidentally, the factor last year acquired significant revenue from the increase in price for metallurgical products. But now there is a recession on the world market, and the price of steel plate and casting is also falling. Are you following these also?

[Answer] This is in the official sphere of authority, but in fact if we want to play by the rules of the game, we should now reduce our prices. I say this despite the fact that a price decrease in metallurgy would cause us a significant loss of profit. I believe that for the new price system to orient enterprises toward better value-ratio prices and more competitive production, it is very essential for it to be consistent. If we change the various elements of the regulators too frequently in midstream, it will be possible to plan and develop only at the cost of unjustifiably greater risks. This reduces enterprise flexibility.

[Question] As one of the favorable effects of the new price system, it can be expected that cooperation among enterprises will improve, delivery discipline will be strengthened, and the subordination of the makers of the final product will be moderated. Do you sense such changes?

[Answer] It is not a readiness to cooperate which has improved; but as a consequence of the moderation in the growth rate and a decrease in the number of investments, several enterprises now have free capacities, and they have offered this to others, for example, to us as well. The problem is, however, that they are offering themselves only for work of low qualification, and this is not acceptable to us.

At other enterprises we are experiencing the old attitudes, that is, they do not like the role of a supply and cooperation partner. Last year, for example, we asked for the cooperation of several, various-size enterprises in manufacturing railroad spare parts, a product group where our capacity is small. We did not succeed in agreeing with them on the manufacture of the products even though their marketing is economic in all three main trade relations. Unfortunately, industrial management has not exercised thus far the necessary coordination to develop the inclination for such type of cooperation.

Of course, we succeeded, nevertheless, in agreeing with several enterprises in new areas of cooperation. The problem in these cases is that they continue at times to dictate price agreements. It is not even possible to point to the price-limiting role of imports because they know we will not receive a license to import these products. Another problem is that as a consequence of the "price contest," the enterprises before the preparation of the 1980 balances can transfer to one another the additional profits that came about in this way and cannot be accounted for in the balance.

[Question] In the transformation of your product structure, an important role is being given to the development of new products and moreover to the replacement of capitalist imports. Does the new price system place a value on this economically useful activity?

[Answer] Based partly on earlier licenses and partly on independent development or on the purchase of more recent foreign procedures, we have started the import substitution development of gas motors, compressor stations, diver pumps and transmissions, to mention only the larger categories. These products have been acquired by import from capitalist countries both by our factory and by the largest users, the National Petroleum and Gas Trust and the coal mining enterprises. For development and assembly production as well as for joint exports to subsequent third markets, we have come to agreement both with the domestic partners and the capitalist firm that provides the license. The transaction seems profitable for all three of us over the long run.

As for the short term, there exists some uncertainty, and this is evident in the shaping of prices. To be sure, these are new products and there is nothing they can be compared to. In principle, the goods would be limited by the import price, but they cannot be compared with the products available on the world market because precisely as a result of their rapid development they are more modern in certain parameters, and can do more. But even if we reach the ceiling which we say the capitalist import price level will allow, it is not certain that we can account for its profit. Even if their average price level or profit is higher than our average price level change or profitability attained in capitalist export in the same year, the price-index and profitability limit will again step into the picture. This means that if the domestic sale and the profit content of new import-substitute products may be higher than average, the "price" is that this addition must be deducted from the price of other products that are no less important, and for this reason the price and the profit thereof can only be smaller.

[Question] You mentioned that most of our capitalist transactions are made in the framework of competitive negotiations. How can an active price policy be conducted in this way?

[Answer] Actually, in competitive negotiations we must count on the possibility that, in hope of making a deal, one of the competitors (relying generally on export supports or the high price level attained on the protected domestic market) will make an offer below cost, or offer rebates with which we cannot compete. That we nevertheless start with hope and expectation is due to the fact that Ganz-MAVAG is again "taken note of" on the world market. There are, for example, competitive negotiations at which the parameters are set forth expressly for us. We "occupy" a market with basic market research and strong marketing practice--and I believe that in successful transactions a role is played by the fact that we have independent export rights. After the competitive negotiations, we analyze separately each partner's offer; and we make use of this information at a new turn.

Since a given export transaction covers a rather long period, we seek to protect the relative value constancy of our deliveries by changing over to foreign currency, like the British pound, instead of using dollar accounting, which is regarded as generally normal. And, although it is expensive, we use rate-of-exchange insurance in every case. For the time being, it is worthwhile for the most part; this is, of course, a symptom of the recession. But there is no safeguard against domestic changes in the rate of exchange, and this must be reckoned with. There is some relief in the fact that in comparison to the previous year we have been informed as



a help to planning what kind of exchange rate changes we can count on in the Sixth Five-Year Plan period. This is at least a point of orientation.

In summary, I am optimistic about our market prospects because Ganz-MAVAG "stands on many feet," that is, with its varied product scale it can adjust well to the changes in world market supply and demand. We plan to expand this activity, which makes complex primary contracting possible by linking up with a given product group, for example, with water equipment or railroad vehicle developments.

Despite the growing risk, this is also accompanied by increasing profit. According to our plan, by 1985 we shall exceed \$80 million in capitalist exports with a favorable yield which will make it unnecessary to accept production modernization supports. I believe that stricter domestic economic regulation, including the new price system, will stimulate us to a more rapid change of pace than heretofore, particularly if we succeed in solving the above-named problems, which I am confident of. Under its influence we will close the gap with good machine industry enterprises more rapidly than expected.

#### Automobile Electric Equipment Factory

An operation that is a medium-size enterprise in machine industry terms produced last year 1.1 billion forints' worth of starters, generators, dynamos and various spare parts. It employs 1,400 workers at two sites. Its main efficiency and productivity indexes are better than for the machine industry and subbranch average. It exports 70 percent of its production, the most important part of which is the export of starters and dynamos under an existing bilateral agreement with the GDR. Twelve percent of our domestic sales go to capitalist countries. On the basis of 1980 figures, we expect our profits to come to 200 million forints. We put our questions to Mrs Miklos Varkonyi, deputy economic manager.

[Question] Have you heard of the charge made by other enterprises in the machine industry that you are in an easy position because your imports consist of products of relatively small value and of new origin? Thus, on the basis of one or two profitable transactions in recent times, you can account for conspicuously high profits both in domestic and in socialist production.

[Answer] Yes, we have heard that, and I believe it is without foundation. Our actually small volume of capitalist exports consist of small-value spare parts and products, but the yield and the foreign exchange earnings index are very good. Nor do I think that in respect to our size the \$1.5 million in exports for 1980--which was twice that of the previous year--is slight. This year we shall again double our capitalist exports.

I regard as the most progressive feature of the new producer price system the fact that it does not strengthen the earlier outlook--somewhat simplified--of "let us export, no matter for how much," but rather it promotes a well-based export, buttressed both from the commercial and technical development point of view. It pays honor to the efforts made over a number of years as expressed by the enterprise's production expansion and the modernization of its product structure.

[Question] A 200-million-forint profit, that is a nice sum no matter how one counts it. Did you count on this much?

[Answer] We planned only as much as possible with the average profitability of capitalist exports, and this was 15 percent. The additional amount came from the capitalist market price increases that occurred during the year, from the additional capacity that was exactly adequate for our production expansion development, and naturally from our cost-reducing, efficiency-improving organizational measures. Thus our profits were about 50 million more than we had counted on.

[Question] Are the products you export to all capitalist countries uniformly profitable?

[Answer] Our products can be divided into two categories: the so-called parts for building in, and the spare parts. We regard the latter as finished products, but they meet the spare-parts needs of earlier deliveries such as, for example, Icarus buses and Csepel trucks. It is true around the world that the prices for spare parts are more favorable than for the components that are originally built in, and thus it is always worthwhile to deal in the former. It is another matter that the spare-parts market can be well forecast both in time and volume, but it is limited in respect to where the finished product manufacturer can sell the product. Therefore, we also try to be present independently on the world market.

The possibility for this exists, for example, with the new starter manufactured on the basis of a Bosch license. But I must say that the profitability of this production is today still below the 15 percent average. This is true, for example, because in starting production there are many kinds of new costs, including tooling up. We can reach a truly economic assembly run only in 1 or 2 years, and the gaining of new markets also represents some price loss. All this reduces the price level according to the new price regulation. And still I believe it is worthwhile for us to take the risk and venture in. According to our estimates the lower profitability deriving from this activity, calculated domestically, still brings us adequate profit, but after 1983 this product, which can be regarded as modern from every point of view, will bring as much profit as our present average capitalist exports. This is not even to mention the fact that it can create for us such conditions on the new markets as will also make possible the export of other products. The profitability of our capitalist exports will in any event make it possible for us to do without participating in any form of production sales tax rebate which is assigned on the average for the machine industry.

[Question] Has the favorable profitability of capitalist exports also meant a price gain domestically?

[Answer] We have reduced the price of our generators (on which we had a 40 percent profit), and we have raised the price of starters (on which the profit was 2-3 percent); and for dynamos, on which we are losing, we have set for ourselves a 15 percent profitability. All in all, we have not as yet changed our starting prices although there would have been possibilities to do so both with the price increase on the capitalist market and the domestic material and energy price changes.

We considered it would be better to strive for stability; within our product structure, because of the enormous number of parts, there are very many small items, and by constantly changing prices at AUTOKER (Auto and Spare Parts Trade Enterprise) and TEK (Capital Equipment Marketing Enterprise) we would only increase bureaucratic work. In fact, at the end of the first quarter of last year we held a self-review, and we gave a 5.5-million-forint price rebate to our largest domestic partner, the Hungarian Railroad Car and Machine Factory.

#### Rayon Knitwear Factory

This large enterprise which consists of five factories and employs 4,400 workers produced last year 1.1 billion forints' worth of synthetic body linen (under and upper), night dresses, blouses of various styles, jerseys, leisure clothes, and men's suits. An increasing ratio of production is for the sale of knit fabric. Thirty-five percent of their production is exported, about 10 percent of which is for capitalist markets. On the basis of results for the past year, the profits will be outstandingly high 130 million forints.

Laszlo Racz, economic manager, answered our questions.

[Question] In applying the new price system, most enterprises complain that they export different product groups to the capitalist and to the socialist countries, and the requirements for domestic customers are also different. At the same time, they can only account for the profitability of capitalist exports over the rest of the production. I understand that in your factories you have found a solution for this comparison.

[Answer] The enterprise was very much affected by this problem, for we produce a tremendously large number of products, and thus it was a difficult task to compare the price level of products as well as to account for the results of the otherwise favorable profitability of capitalist exports on our domestic production. Therefore, we set up comparable categories by product groups, on the basis of each product's physical qualities, for example, the kind of basic material it is made from, how much it weighs, how time-intensive it is in production, and so forth. These are the delineating factors, and we determined the average price on the basis of the full content of the category.

This appears to be an advantageous method because it does not compare product with production, but tries to compare the efficiency, productivity and profitability indexes for each product group. I must say that the development of this system was accompanied by many problems and much work, and until we could see our way clear in this area we did not change last year's domestic prices in accordance with the authorities' insistence. I regard the dual limitation of the average profitability and the average price level as one of the difficulties in the otherwise correct new producer price system which stimulates the intensification of effective capitalist exports. The lower one always counts as the base, and in some cases this can brake the expansion of the enterprise's selection of products. The "pigeon holes" we have created, for example, make it possible to measure the enterprise price level more advantageously, but they cover up the individual properties of the products, and if we were only to consider the average production costs, it could lead us to strip



down our products. Of course, we are not going to fall into this trap which projects short-term interests, and we change our product structure very rapidly as a function of market demands and our technical possibilities. But the maintenance of the average price level requires much more administration than before and is not free of price bureaucracy.

[Question] Is this also the reason for the fact that last year you raised and lowered domestic prices at a rapid rate?

[Answer] The fluctuations in domestic price developments were due partly to the fact that we, too, were learning the new price system and partly to the fact that we are actually at the mercy of the GYTV [Gyor Textile Enterprise] price fluctuations for meeting our basic material needs. This light industry TEK enterprise acquires for us the synthetic fibers, which in our case represents an import of 80 percent. The problem was that by basing ourselves on the wrong prognosis for the world market for synthetic fiber we set our domestic starting prices too low in comparison to capitalist export profitability.

The entire industrial branch fell into this error with Hungarotex and the GYTV in the lead, both of which made deliveries at the above-mentioned depressed prices until 1 April 1980. But meanwhile, the world market price rose steeply and the stockpiling enterprise had an 18 percent loss in the first quarter. To make up for this somehow, in the second and third quarters it sold us the fibers at a cost 9 percent above the world market price. This would have been all right but in the meantime the world market prices for the fibers fell again. In response to this, it decreased prices, but not by much. This phase distortion--unfortunately this is what it looks like--will continue to cause many strains in the future as well. But with better information we could adjust more flexibly to each other and, not least of all, to the world market.

Naturally, we did not take the price changes of the basic materials directly into our domestic prices. We carried out many production organizational and prime cost reduction measures which improved efficiency. But we still could not maintain the earlier situation, and we carried out an average 10 percent increase in the middle of 1980 as compared to the starting prices. This average, too, covers up a significant differentiation. In shaping the individual prices, we took into account the price level of the above-mentioned categories, and not least of all the fact that the domestic prices of the products could not be higher than the prices for similar products acquired by import. (This again is some kind of a contradiction, for a pair of Hong Kong trousers which we buy at a dumping price "depresses" the price for our trousers, which are worth more by virtue of their properties.)

Our domestic partners did not take kindly to all this, and we drew the proper conclusion. We decided that if possible we would change our prices only semiannually and that we would "manage out" the fluctuations. Thus, for example, we received the indication that the price of fiber would stagnate on the world market for the early months of 1981, and then if justified we too will turn attention to the prices only in midyear.

[Question] After hearing this Calvary, it appears all the more exciting to know how you were able to close out last year with such high profits.

[Answer] Indeed we can say that a profit of 130 million forints is much better than the 40 million we planned. But here it is worthwhile to separate two different matters.

One is that our products are salable on capitalist markets at relatively good prices and favorable profitability: with increasing prices this meant last year a profitability of 10-12 percent. Of course, the spread here too is great, for the profitability of contract work, for example, is more favorable than that for independent exports. But I see the greatest success of the past year in the large-scale discovery and mobilization of internal reserves. I shall mention only one of the many kinds of measures: the ratio of production in first-class goods improved 2.5 percent, and today comes to 96.5 percent. I can say without boasting that this puts us among the very first in the knitwear industry.

There is still another element to the favorable picture. Unlike in the case of certain light industry enterprises, our products also sell at good prices on the socialist market. If we can keep our favorable prices on these markets in the coming years and the profit content can remain with the enterprise, we are by all means interested in socialist exports.

[Question] Your product structure is changing rapidly; for example, you appeared at the autumn BNV [Budapest International Fair] with many new products. Does the export of such individual new products endanger the attained, advantageous price level?

[Answer] Only if we sell at lower prices than before. We have succeeded, however, in obtaining better prices. It is also a positive feature of the new price system that it gives incentive to the producer to appear with more modern and competitive products on the world market. For example, not long ago we developed a mixed fabric of polyester and rabbit's hair with a pleasant, fluffy touch in which there is a very great interest on the West German and British markets. One of our other new products, an elastic fabric which adjusts better to the lines of the body, is sought after both domestically and abroad. But the favorable marketing of the new products represents a problem to the extent that this additional result--again I point to the limits of the average price level--can also be accounted for only with a year's delay in domestic marketing.

[Question] Finally, does the new price system provide incentive for more flexible management?

[Answer] It is my opinion that we can live with the conditions of the new price system. It is true that we have to work a lot more and rack our brains more than before. But the other side of the coin is this: It is worth the trouble because on the basis of profitable capitalist exports we have greater growth possibilities as compared to the industrial average. We will have some bank debts to 1982, but after that we can start developing again; we desire to modernize the processing work because this is the basis for increasing quality work and ability to compete. We are planning under the Sixth Five-Year Plan to double our capitalist exports, and among other things we are striving for fabric exports. But the economy and efficiency of exports may improve better than quantitative growth.

## Red October Men's Wear Factory

This large enterprise centered in Budapest has six sites and employs 3,500 workers. Its production value last year came to 750 million forints, and profits were around 30 to 40 million forints. It has a homogeneous production scale, manufacturing only men's suits. Seventy percent of the production is exported, of which capitalist markets have 35 percent. Its exports last year came to \$7 million, or 8 million rubles.

We conducted the discussion with Karoly Kemenes, deputy managing director.

[Question] Contract work was of great importance in your capitalist relations in earlier times. This activity was often criticized with the assertion that in this way we sold only relatively cheap Hungarian goods. Has the new price system brought about a change in this judgment, and what is the situation with the economy of our capitalist exports?

[Answer] The competitive price system clearly gives incentive to contract work: in the present situation it is not only volume that is most important but also the foreign currency yield. Nevertheless, the dollar earnings index of \$4 to 5 million in contract work--without any state support at all--has thus far been more favorable than for the economy on the average. In any event, I dispute that we are competitive in this area merely because of our lower wages.

Our relations, which go back 15 years, allow us to conclude that the capitalist partner in a contract work arrangement pays primarily for well-organized work, uniformly good quality, speed and flexibility. For example, we deliver in 8 weeks, and moreover in small series and large model selections. The developing countries, which are our potential rivals, are not capable of doing this for the time being. And although the price-increase rate for contract work lags behind that of a given outstanding export with native material, we are able to raise our prices from year to year by 5 to 6 percent. And thus its profitability is still more favorable, that is, 12 to 14 percent. However, the profitability of capitalist exports based on domestic yard goods is limited by the extremely high prime costs of wool industry enterprises. But beyond this, in my judgment they are still interested--with the exception of one or two large enterprises--in independent exports rather than in establishing closer ties with the ready-to-wear industry.

[Question] Then according to what you say the favorable profitability of contract work can also be accounted for on domestic deliveries?

[Answer] Not at all. And here I feel some antipathy to the new producer price system which otherwise really provides incentive for increasing efficiency and intensifying economic capitalist export. Our domestic prices--and thus also for profitability which according to the regulations sets limits to the profitability of socialist exports--have a dual limit: on one hand, the capitalist price index and, on the other hand, the index for profitability achieved in the capitalist market. Let us proceed from the principle that the domestic price can be raised only to the extent of the average price increase on the capitalist market. This in itself is very correct. But as a consequence of the foreign currency reevaluations based on domestic decisions, and not plannable in 1980, our average deteriorated.

I do not think that the accident helped us. We have longstanding contract-work relations with two large French and Dutch firms, and the Hungarian National Bank devaluated within 1 year the French franc by 12.4 percent and the Dutch florin by 11.7 percent. We could not simply compensate for this by a price increase since this was not justified by additional work or efficiency. Thus our foreign exchange receipts as shown in forints--and this is domestically in force--brought down the average capitalist price level because of the alteration in the foreign exchange multiplier and reduced the average profit that could be accounted domestically.

I refer to an accident because at the same time, for example, they evaluated the British pound 6 percent upward. Thus another enterprise "earned" 6 percent more on suits of exactly the same value as ours without any improvement in internal savings or efficiency. From an enterprise point of view this appears to be somewhat unfair.

[Question] On 1 January of last year they centrally reduced the consumer price of wool suits by about 25 percent and thus also the producer price. Thus, as compared to earlier years, their factories were able to start at a very low price level. Was it possible to implement the competitive price principle in midyear on the domestic market?

[Answer] Yes. After the quarterly price stop we raised our domestic prices 4 percent. Incidentally, in the first 3 months of the year the basic material manufacturers did not even want to enter into discussion with us, and they did not even want to fulfill those deliveries which had earlier been contracted for. Our semi-annual balance showed, however, that because of the internal exchange rate alteration mentioned in the foregoing our basic price index fell below 1, and thus on 1 October 1980 we again raised our domestic prices 3 percent, proceeding from the point of view that the evaluation of the exchange rate would not be greater than this.

[Question] How is the profitability of your socialist exports developing?

[Answer] Here there is a conflict between the competitive and the Bucharest price principle. Last year Hungarotex was able to raise our prices on the socialist market by 3 percent, but this was considerably less than the price increases by the manufacturers of the basic material. Thus these exports have shown a loss. With the solution of the contradictions, on 1 April they raised the production modernization supports for socialist exports by another 4 percent. The midyear change in the ruble multiplier again tipped the balance in a negative direction. Since the enterprises are graded on the basis of profitability of exports, we abide by the regulations of the game and in the future we shall reduce our socialist exports.

[Question] The entire profit of the enterprise is defined by an improvement in capitalist exports. Does this mean that you are also interested in discovering new markets and in increasing the volume of export?

[Answer] In principle yes. But we are constrained here also by the average price index. In our line of trade, it frequently happens that the gaining of a new



market is accompanied by losses. For example, from materials of the Richards and the Hungarian Worsted Spinning Mill we made small ready-to-wear items last year for American export. Over the long run, because of the enormous dimensions of the market, this could be a profitable business, but in the first year we could sell only with a price-index reduction. If I were to look at the regulation only, we should not be taking the risk, for in this way the capitalist average price level and the profitability have deteriorated. But, of course, we went ahead for the long-term advantages.

I sense strains in the fact that our price system is established on a base. It does not take sufficiently into account the development an enterprise has achieved, and considers only the change achieved in respect to the base.

[Question] Finally, with 5 percent profitability have you remained among the better clothing factories?

[Answer] It is a fact that in contrast with my earlier pessimistic judgment, which prevailed in the industrial branch of the basis of trial estimates, our situation is somewhat more favorable than expected. I would put it this way—we have remained on our feet and we have made enough profit to meet our credit payment obligations, and as a matter of fact we wish to take new development credits; and this year, too, we will be able to raise wages by an average of 5 percent.

The price system, together with its contradictions, is clearly impelling us in the direction of profitable capitalist exports. Therefore, this year we are raising the ratio of contract work by 40 percent, and in joint undertaking with the competitive manufacturers of basic materials we will search for new markets sharing in the profits on an added-value basis. Unfortunately, it also appears that it will be worthwhile for us to import finished textiles and export them after having manufactured ready-to-wear goods. We can achieve even more favorable prices in this way than if we build only on basic materials of domestic manufacturers.

#### Domestic Worsted Spinning and Weaving Mill

This textile factory is centered in the capital city, has six sites, and employs 4,000 workers; last year it manufactured goods worth 1.3 billion forints, for the most part worsted textiles and fibers (in a 50-50 ratio). Its total exports came to 17 percent, but the socialist relations are the most important. The ratio of direct capitalist exports is altogether 1.5 to 2 percent. But if we calculate how much is indirectly exported--through processing by the large ready-to-wear factories--the ratio comes to 65 percent.

We put our questions to Laszlo Horvath, managing chief accountant of the factory.

[Question] Since your capitalist exports in yard goods do not come to 5 percent of domestic production, your factory belongs among the so-called followers in the industry. What does this mean in practice?

[Answer] In the wool industry, two large enterprises have more important and independent capitalist exports; we too can realize the average profitability of

their export products in our domestic and socialist production. Thus on 1 January 1980 we could calculate a total profit of 0.4 percent in our starting prices, which meant that we will have a total profit of 5.7 million forints for 1980 production. Since our profits came to 100 million forints earlier, we felt the consequences of the regulation change very seriously. As a matter of fact, in this sense the new price system shocked the factory leadership. Now that it is evident our profits are around 45 million forints, we can more calmly say: translation not provided and we are able to release our reserves.

[Question] If we start from the unfavorable profitability of the two leading enterprises, Richards and the Újpest Cotton Weaving Mill, the question inevitably rises: Is the capitalist export of the Domestic Worsted so unfavorable, or of such poor quality, that it cannot appear on capitalist markets?

[Answer] In quality and style our products are competitive with similar products of the leading enterprises. In earlier years we also exported in greater ratio to capitalist markets, about 6 to 7 times the present volume. But really the export profitability was not advantageous although in the enterprise management this was forgotten by the support system of that time. We reduced our capitalist exports because we accepted the economic and industrial branch argument that it is more advantageous for us to supply the domestic ready-to-wear industry, for we can then appear on the world market with more valuable finished products which will include more live work and innovations. The moment the new price system was introduced it seemed that this cost us dear because in the greater volume of capitalist exports in previous years more income was formed on an average of 0.4 percent.

[Question] In addition to the low starting profitability, a large-scale decline in production value also occurred. You manufactured as much but at prices that were 20 percent less. Why?

[Answer] The price of worsted textiles was reduced 30 percent and of fibers 20 to 22 percent, only the price of our small-scale carded textiles remained on the same level. This meant a "bloodletting" of another 300 million forints. In the 1970's there was, to be sure, a downswing in the wool industry throughout the world, but in Hungary this was exactly when our capacity was increased because of the delayed reconstruction projects. We too produced part of our products for storage. The charge of "overdevelopment" also played a role in the large-scale price reduction. With hindsight, it is evident that we were dealing with a 2-3 year periodical fluctuation, and the market is now becoming brisk. In 1980, for example, we were unable to meet demand, and in midyear we had to reject orders.

[Question] A role is also played in this, of course, by the fact that the products are less expensive than those of other Hungarian wool enterprises.

[Answer] We are enjoying this advantage for the first time in 10 years, and undoubtedly the new and more value-proportional price system made it possible for us to produce more economically so that we could realize in our use of basic materials the difference of price between the Hungarian merino wool with its important role and the imported basic materials processed by the other enterprises. Formerly, to be sure, a wool economy operated which put an equal sign between imported and domestic

basic materials. In evaluating the 1980 inventory, however, we still were not able immediately to use the possibilities of the new price principle, because we had to reprice the 1977 basic material composition.

Let me add that the inexpensiveness of Hungarian wool does not mean that in quality we lag behind Australian wool, for example. Our change of product structure assures that if we carry out appropriate product developments in the character of the basic material, its properties are more favorable and attractive, and in fact we can use it to make the most stylish basic material on the world market.

[Question] Despite the foreboding signs, how did you succeed in gaining such high profits?

[Answer] First of all, with the improvement of our management, which coincided with an increase in products sought after both at home and abroad. Among internal measures, I would emphasize the radical decrease in inventories: in 1980 we "swept out" all our idle goods and reduced our inventories by about 130 million forints; in fact, we have reached a point where we are operating without working capital credits, which is something outstanding nowadays, I believe. Our productivity has also improved, and our manpower has declined to a significant degree. We have also taken many price-cost-reduction or organizational measures which we would call one-time discoveries of reserves, because they cannot be repeated. But we have now been forced to take these steps.

[Question] What kind of price policy can an enterprise, as a follower, pursue?

[Answer] Although the price forecasts of Hungarotex for the first quarter of last year indicated an increase in the world price for wool, we raised our prices only on 30 September, differentiated by product groups, for an average of 3 percent and on 1 October again by 1 percent. This appeared realistic in consideration of the price fluctuations over a longer period. This year, however, we do not wish to raise our prices unless there is some kind of extraordinary change.

The situation is, of course, different with those products which we deliver to the ready-to-wear industry and which we know ahead of time are for the capitalist market. Here we achieved a greater but realistic price increase after some bargaining. With several of our larger partners we earlier succeeded in developing such relations as provide for a transfer at year's end of 20 to 30 percent of their export price profits.

A true problem is actually presented by the substantial volume of socialist exports because the prices are so low. The increases we have been able to gain with the mediation of Hungarotex are not in proportion with the increased costs or with the changes in the ruble multiplier. Thus despite high supports, our exports to the socialist countries are made at a loss. Economically speaking we are not interested in increasing our socialist exports or even in maintaining the current level.

[Question] Is the profit adequate for amortizing the earlier reconstruction credits?



[Answer] Yes, and in fact we have "prepaid" for 1981. According to our estimates there will also be enough in the development fund for the coming years so that we can develop although at a slow rate. We have high expectations for a recently signed cooperation agreement with Switzerland. We are buying know-how from them; this is accompanied by a characteristic organization of technological development in the manufacture of worsted textile. The agreement extends to joint product development, direct capitalist exports, and presence on third markets.

[Question] All this allows one to conclude that in time you want to move from enterprises that follow into those which are in the competitive price sphere. Why is this, since on the basis of your management in 1980 you had greater profits than many enterprises which are decisively and directly working for capitalist export?

[Answer] In principle, it will be 1984 before we will reach, in comparison with our domestic production, the magic 5 percent figure, given the increase in Swiss deliveries. I must say, however, that the enterprise leadership is still pondering over whether we really want to go in this direction. One of the least attractive consequences of the price principle as follower is that we are cut off from direct foreign market information, and in the final analysis we tie our grading and our managing indexes to leading enterprises in the management of which we have no voice. This, however, stimulates us to try to make ourselves "independent" if it is worthwhile in price and profitability.

But as one can hear, there are drawbacks also to competitive price formation, and technical contradictions of various dimensions in its implementation.

Actually, it would be most advisable if the foreign trade association which was formed last year in Hungarotex would include not only the manufacturers of basic materials. The ready-to-wear outfits should belong here not in associational but in looser relations, and the same is true of the knitters, who basically use wool and synthetic fibers. The present alignment only results in finger-pointing rather than in common incentive.

#### Machine Tool Industry Works

This large enterprise, which consists of six factories and a research institute and employs 6,100 workers, had a production value of 2.2 billion forints in 1980, but its profits came to only 60 million forints. Ninety percent of its machine tools are exported, 65 to 70 percent going to capitalist markets.

We talked with Ferenc Zalka, economic manager at the enterprise.

[Question] Last year SZIM [Machine Tool Industry Works] was in a difficult economic situation. Its profits shrank so much that it would not have had enough even to begin repaying in 1981 the export development credits which it had received earlier. It appears as though you cannot meet the stricter management-profitability requirements stemming from the 1980 changes in the regulations and from the introduction of the new producer price system.

[Answer] The new price system did not evoke, but merely pointed out more clearly, the weak and vulnerable points of our management. I do not deny that the early strains and errors of our enterprise leadership, of the production organization and of material management played a role to a large extent in the problems of last year and the year before. The most important cause, however, was that the change in production and production structure and the parallel realization of our wide-scale investment program coincided with the gradual narrowing of the economic environment. In this way we passed into a phase delay.

We were not able to proceed either in efficiency or price work with the rapidly paced and quantitatively important structural transformation that was started in 1978-1979, and this reacted on our profitability. Several industrial branch characteristics also had a role here, among other things, the market situation for machine tools, the marketing forms that could be implemented, and the rate and ratio of price increases.

All this was also weighed by the government, and therefore in the middle of 1980 the State Planning Committee gave us a bit of breathing room. We did not receive subsidies or any special kind of consideration; they only made it possible for us to delay repayment of the credits, that is, we need to start repayment in 1983 rather than in 1981. These 2 years are enough for us not only to stand on our feet but also for us to reach a better profitability level than the machine tool average.

[Question] What did you "offer" in return for the easing of credit repayment conditions?

[Answer] Volume growth, quality change, and rocketing improvement in efficiency and profitability. Our production value, which was \$2.2 billion in 1980, will be \$4 billion by 1985; capitalist exports will expand by 284 percent and socialist exports by 160 percent, and profits will reach 500 million forints. All this will be done in such a way that meanwhile the ratio of modern automated machines, processing centers, and integrated assemblies will gradually increase within the product structure. In 1976, these had a ratio of 16 percent, last year 40 percent; this year the ratio will be 60 percent, and in 1985 it will be 80 percent. With this, we can offer a scale of products corresponding to the product range of rival capitalist firms.

[Question] As a consequence of its features, SZIM is an enterprise that is oriented to exports. The profitability of capitalist exports should have played an important role in its operations for a long time now. And still it was only with the introduction last year of the producer price system that it could be clearly shown that both from a national economic and enterprise point of view your capitalist export price level was unfavorable, and profitability extremely low. What is the reason for this?

[Answer] Since the average profitability of our capitalist exports in 1980--projected on revenue--was only 2 percent, we had to reduce our starting prices of 1 January 1980 by about 9 percent on the domestic market as compared to what they were earlier. This and other regulations changes immediately "tapped" profits by 177 million forints, while the April increase in material and energy prices caused an additional loss of 56 million forints.

One may rightfully ask why the profitability of our capitalist exports is so unfavorable. The 2 percent is average, and within this there is a significant spread. On the single-spindle automatic lathe, which we make in cooperation with the West German TRAUB firm and which we have been manufacturing for a rather long time, the profits are higher than average, but on the first 10 pieces of equipment at the Steinep processing center, which is also of FRG origin, our losses have been significant. A role was played in this by inexperience and organizational problems due to the changeover; but this temporary standstill also derives from the price-increase rate for capitalist exports as internationally accepted and largely supported by cooperation projects and license purchases.

We are cooperating with the FRG Gildemeister firm in the manufacture and export of a very modern automated lathe, which replaces seven to eight skilled workers. According to the agreement, we should have manufactured 60 such pieces of equipment in 1978 at a price of DM 28,500 each. But they were not ready in time, and it was 1979 before we delivered 72 units at the same price. It was then already evident that in view of the newness of the product the price was too low, but our FRG partner, which bore the full marketing risk, was unable to accept a higher starting price. Therefore at the start we suffered a loss in manufacture and export. In 1980, however, we delivered 100 such lathes at a price of DM 37,000 each, which yielded a profit but a modest one. This year, however, we are counting on the export of 200 such machines at a price of DM 42,500; the profit will thus have grown nicely.

The Gildemeister cooperation project is a characteristic example because it shows that the price level of our capitalist exports, and its profitability as well, grows parallel with volume growth and the demonstration of market capability. This year, for example, we are counting on a production value of 2.5 million forints. In addition to the capitalist market price increase, the increment derives from the increase in the ratio of new, modern products, from volume increases, and a significant decrease in prime cost. In 1981, we can count on a revenue-ratio profit of a 6-8 percent on the average on the basis of capitalist exports, which is acceptable and in addition makes it possible for the discontinuance on 1 July 1981 of production modernization supports for our enterprise.

All this indicates that the capitalist price level for our machine tool is favorable not only for the enterprise but from the point of view of the national economy, primarily in the improvement of the foreign-exchange yield and the dollar-output index.

[Question] Accordingly, in the case of new products the market entry losses cause a large-scale spread in the profitability of capitalist exports. With better industrial-foreign trade cooperation could these risks be reduced?

[Answer] In earlier times Technoimpex was interested primarily in increasing volume and export revenue. The association contract which we have now developed is based on mutual interest and stimulates both enterprises to devote greater attention not only to an increase in the export volume but to price work, including the improvement of the dollar-output index. We agree on a dual limit price, the low limit being set by Technoimpex, the high limit by us. Sale below the low limit is forbidden. If a

sale is made between the two limits, we share the profit in a 20-80 percent ratio. But if a sale is made at a price above the upper limit, there is a 50-50 share in the additional income. The two limits grow from year to year (6 to 8 percent in 1981) on the basis of the world index that is valid for the machine tool industry, the so-called Wiesbaden price. This arrangement is expected to have an effect in the direction of joint risk undertaking.

[Question] An important part of your capitalist exports take place not through individual sales but on the basis of international cooperation projects. But the cooperation price level is somewhat low.

[Answer] I regard the price lost here as negligible; in any event, the difference is balanced out by the volume, a permanent market relation, and a reduced risk in marketing. In any event, we sign the 5-year agreements with our cooperation partners on an annual sliding price as provided by the Wiesbaden price index.

Cooperation relations also make it possible for us to reduce to a significant extent the ratio of capitalist import parts and components necessary for expanding our exports. For last year's \$16 million in exports we had to use \$8 million worth of imports. The weakness of the domestic background industry and the slight share we have in the machine tool industry of the world justify our creating large serial parts manufacture for modern machines in given areas. With this we replace imports, and the way opens up for economic capitalist exports because the price for parts rises faster than the price for finished products.

[Question] One of the reasons for price losses in cooperation may be that the controls which represent the soul of modern machine tools are put on for the most part by your capitalist partners, and the true profits are derived from these controls.

[Answer] As long as we are unable to manufacture controls that are of the same value as those of our competitors we will have to accept this situation. And instead I would like to draw attention regarding the controls to one of the contradictions of the present price system. We should realize the average prices for export machinery without the controls in domestic sales as well. We sell machine tools together with the controls to our domestic partners, and still we can account for only as much profit as we achieve in capitalist exports although we are dealing with two different matters. For the domestic buyer this represents a subsidy which is not in harmony with the principle of value-ratio price.

An additional strain is created by the fact that we want to devote our additional capacity primarily to expanding capitalist exports: this is what we are interested in, because the profitability that can be achieved here is important for the development of the entire enterprise. Apparently, this is also in the interest of the economy since we can achieve the improvement of the payments balance with rapid and economic capitalist exports. But other domestic machine industry enterprises are constrained—for the manufacture of other competitive products—to buy from capitalist imports those machine tools which we export to capitalist firms.

But it is not only the foreign-exchange value different which can be pointed out between the two! The price of capitalist import machinery is considerably higher



than our domestic prices calculated on the basis of our export profitability. I know of paradoxical cases where a domestic enterprise imported from a capitalist firm--of course, at a stiffer price--the same machine which were exporting to it.

I see the solution of this problem in a way compatible with the principles of the price system if the capitalist import price could be realized in domestic sales for product groups of technically the same value, that is, in this sense we would follow import prices. The economy, too, would gain from this because internal trade would occur in forints, even if at a higher price level. We have submitted our proposal to the Price Office, but have not as yet received a reply.

[Question] In summary, has the new producer price system guided SZIM on a compulsory course?

[Answer] We already were on this compulsory course, because this is why we developed and changed the product structure. But it is true that the new producer price system has accelerated the enterprise's reaction ability and has stimulated us to free our reserves at a more rapid rate in a broader scope. I think we are beyond the first trap doors in learning the new price system; we know how to use it and employ its advantages. For the solution of the above-mentioned contradictions, on the other hand, practice will find a solution. Thus, for the machine tool industry I find the price regulation to be progressive, a management condition to which, if we adjust, we will know how to develop further.

The enterprise opinions presented here do not, of course, embrace the entire implementation area of the price system, it does not extend to the total positive effects--which today can be well perceived--and it does not list the broad scope of transitional problems which vary from enterprise to enterprise. With our interviews, we have tried to make snapshots of how we should review with the economic leaders of the given enterprises the attempts and experiences of the first year. We are confident that both the political and economic leadership attribute a very important role to the enterprise feedback in the improvement of the price system, its further modernization, and the broadening of the competitive sphere. Without trying to be complete, it is worthwhile therefore, briefly to summarize the enterprise experiences.

The first and most important finding is that all the enterprises unanimously recognized the principle of the new producer price system as positive and as stimulating more efficient and economic work; they recognized it as a regulation which is stronger than the earlier one and impels toward the discovery of enterprise reserves. But--and this is a very important experience which coincides with central efforts--it stimulates only the increase of capitalist exports advantageous from the viewpoint of the national economy. The enterprises are on the "same wavelength" with the policy that is embodied in the new price system and seeks to create a balance in the economy; they understand the causes of the stricter economic conditions, and they can live with the area of mobility of the "world market standard."

But it is also evident from the enterprise snapshots that despite the agreement in principle, the practical application was not all smoothness. A recurring objection



was that the 5 percent limit on capitalist exports is too low; this sometimes give unjustified advantages to those enterprises which on the basis of their small but profitable exports account for higher profits than average on their less economic domestic or socialist production. All this is true also the other way around: if the profitability of capitalist exports is lower than justified for the sake of initial losses and the gaining of markets, then this holds back the enterprise's entire performance results.

A more important problem than the 5 percent zone is the fact that most of the enterprises are not homogeneous in their product structure, and thus they export different goods to capitalist markets than to socialist markets, and likewise provide different goods to domestic customers. Above all, the enterprises believe it is advisable for the profitability of capitalist exports, which is actually so important to management, to be accounted for separately by product groups. That is, the principle of comparing like with like would be realized, proceeding from the fact that this is also how it is on the world market.

The technical strains which occur most frequently in the application of the price system derive from the varying economic nature of the product groups. We refer here only to the dual, base-established limitation of average profitability and average price level. Most of the enterprises would like greater "freedom" in arriving at internal measures. They think that the many restrictions--which derive basically from the base-outlook of the price system in the previous year--restrains the inclination toward initiative, rational risk taking, the development of a long-term enterprise policy, and is based rather on annual "tactical" steps.

It is a frequent complaint--even about the enterprise "learning time"--that in the first period of the introduction of a new price system, paper work and "price bureaucracy" increase. Here too belongs the complaint--and perhaps that is where the persuasion work of the economic-political organs is the weakest--that it is difficult to see with enterprise eyes the cause and extent of the frequent exchange-rate alterations. Therefore, these changes are interpreted by many as the siphoning off of hard-earned, additional profits.

The adjustment of the enterprises to the new price system has been more difficult because, as a consequence of the changes in the regulator system, it has generally reduced profits. Therefore, it is particularly noteworthy that in the development of their action they have proceeded not from interests in momentary profits but from permanent long-range interest in the maintenance of good, correct relations with their partners.

In summary, the year's experiences have been favorable. Those who are managing truly efficiently--with the profits accounted for by both the main authorities and the enterprises--have achieved greater results. This not only points to a huge storehouse of enterprise reserves but also indicates that within our regulator system the new price regulation points more sharply than the earlier changes to an untrammelled economy free of various supports, enterprise dimensions, the starting situation, the scope of the capitalist export which is profitable over the long term, and the possibilities and conditions for further expansion. The price system also shows who are the ones not capable of more organized and flexible work.

By making profit and loss felt more strongly, the price system can contribute greatly to the scale of economic clarity of vision, the indispensable condition of which in the short term is the improvement of our foreign trade balance and over the long term the determining of a more comprehensive industrial development. Enterprise views also substantiate that the introduction of the 1980 price reform was greatly justified because it gave the managing units a guidance which they could use to orient themselves better both on the world market and at home.

All this does not mean, however, that further modernization is not necessary. The paths of further progress must be sought for jointly by economic guidance and by the enterprises, and, among other things, a greater role must be given than heretofore to the analysis and evaluation of enterprise experiences. We wish to extend additional material for this purpose with our "snapshot pictures."

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## BRIEFS

**PRIORITY CEREAL GRAIN PRODUCTION--**The annual meeting of KITE [Corn and Industrial Plant Growing Association] of Nadudvar was held at Kaba on Tuesday. Nearly 500 representatives of the member farms attended the conference. Among the speakers was Jozsef Marjai, vice chairman of the Council of Ministers. Dr Gabor Magyar, director, reported to the group on the achievements of last year: In 1980 KITE membership increased in number of farms and hectareage involved. This year 370 farms are growing crops using KITE technology on over 675,000 hectares. Of this, nearly half a million hectares are devoted to corn and wheat; sunflowers are grown on over 70,000 hectares, while sugar beets are raised on 40,000 hectares. The headquarters of the system helps members attain higher yields through providing technical advice, machines, facilities and installations. Over the past 2 years machinery worth 1.5 billion forints has been distributed to member farms through the headquarters. Work of the member farms is aided with significant technical services as well. Yields at KITE farms have risen substantially since the initiation of the system: Average yields per hectare have increased by 2.6 tons in the case of wheat and by 2 tons in the case of corn. Implementation of the cereal growing program is a priority task of the system for the Sixth 5-Year Plan. Istvan Szabo, president of the Red Star producer cooperative has been reelected chairman of the board of directors of KITE. [Budapest MAGYAR NEMZET in Hungarian 4 Mar 81 p 5]

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## PROJECT FOR OIL REFINERY IN SERBIA RAISES CONTROVERSY

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1571, 8 Feb 81 pp 20-21

[Article by Dragan Jovanovic]

[Text] People are going to be talking about oil not only because of the "banal" reason that there are new prices, which we have already become accustomed to for a week and have put our cars in the garage for a longer or a shorter term. In the last issue of NIN, we wrote that "the federal budget even to this day smelled of gasoline" and that "after the latest price hike, it will have a still higher octane count." Last week, even the Draft Agreement on the Development of Energy to 1985 of the Socialist Republic of Serbia started to smell of gasoline. This draft agreement, within the framework of the basis of the social plan, was approved at the meetings of the Executive Council of the Serbian Assembly held last week and the beginning of this week.

The very fact that the Draft Agreement on Energy Development, along with the outlines of the 5-year social plan, was passed by the Executive Council, meant for the greater part of the public that a refinery is already a fait accompli and that all it needs is to have oil flowing from it.

#### All Would Want a Refinery

Why, in the face of so many refineries throughout the world that are working at half capacity (instead of 30 million tons, only 16 million tons are being refined) and the losses of more than a billion dinars that they suffered the year before last, even Serbia is now building a refinery with such high costs. This was the first and most frequent reaction after making public the plan for the refinery. However, those who are keeping up with our economic and political conditions more seriously have found a deeper reason for the decision, and the most informed persons with somewhat better memories recalled that this is not the first time in the last 10 years that the refinery in Serbia proper is under discussion.

NIN wrote 3 years ago about how the national energy experts [talking about] the Aleksinac oil shales warmed up the hopes of nearly all regions in Serbia that they would obtain a refinery. And even then, establishing a refinery was a sure way to [achieve] a 2,000 dollar per capita income, and perhaps even more. It

would depend upon who would receive the chicken [laying eggs] of black gold: Belgrade, Sabac, Krusevac, Nis, or Leskovac. All of these volunteered.

That spring, regional delegations one after another were going "upstairs to Belgrade" and hovered about the Executive Council, to "put pressure on it," so to say. Even rifts began [to develop] among the regions considered to be candidates for the refinery. Whether because of the high-octane [charged] political situation or for purely economic considerations, which showed there was no money for a refinery, there was no more talk about a refinery in the fall. It looked like the idea had evaporated during the course of the year.

At the beginning of last year, the refinery again became a current topic. An agreement on the development of the oil, gas, and the related chemical industries for the coming 5 years was prepared. This document was interpreted to mean the construction of a refinery and petrochemical facilities. However, only 10 days later, the Executive Council was of the opinion that "it is necessary to reduce the total number of agreements on future development," and that some of them, also including this one concerning the oil industry and its allied industries, were to be compressed into a single one. This "compressing" of agreements has brought into question, not only the construction of the refinery, but also the further development of the petrochemical industry, which Serbia had been counting on very much recently ("Duga" of Belgrade, "Merima," Zupa," and FAM of Krusevac, "Zdravlje" and "Nevena" of Leskovac, "Zorka" of Sabac, and the Belgrade Refinery see their future in it). During the course of the summer, there was no end to discussions on the oil industry, either in the Economic Chamber of the Executive Council.

#### Republic 'Bedz' or Economic Need

At the beginning of August, the Economic Chamber notified the involved economic organizations that "the agreement will probably go through," and that in the very near future, it will be necessary to begin considering where the refinery is to be built. Already by the middle of September, the news had arrived again from the chamber that "the outcome of the agreements remains in question." Very soon, these worries became realized: the number of social agreements of the social plan are being "compressed" to nearly one-fourth their number and are reduced to 12. Then, the three coordinating bodies of the chamber had to reduce these 12 agreements to three, which means to one-fourth the original number. At the Committee for Social Planning and Development of the Executive Council of the Serbian Assembly, however, the refinery again gained some sort of recognition, so that last week, Krsta Jovanovic, Republic Secretary for the Economy, announced clearer than ever before, that by the end of 1985, a refinery with a capacity [to handle] 3.5 million tons of oil, (whereas consumption in Serbia at that time will be about 5.5 million tons) would be built.

"Many more reasons influenced the proposal for building an oil refinery in the coming years," said Jovanovic. "The existing oil refineries in Serbia, which are located in Belgrade and Krusevac, require regular supplies of oil derivatives. In addition to this, a number of chemical factories use gasoline or derivatives of a higher grade of refinement. All the existing conditions in Serbia speak



of the need to guarantee a secure and constant supply of crude oil," stated the Republic Secretary for the Economy.

Milutin Cveticovic, President of the Smederevo Opstina for many years, addressed this matter still more clearly and succinctly: "You hear discussions on the shortage of oil and oil derivatives, but we had a refinery across the Danube that did not fulfill its obligations with respect to Serbia proper."

Of course, the refinery referred to is the Pancevo Refinery. With this type of reasoning, it is possible that we may not win friends, but if one keeps in mind that Serbia (the largest user of oil in Yugoslavia) requires oil from its foreign exchange quota on the account of "other" refineries, and then, it buys gasoline and gasoline products from them later for "full" price. It is perhaps clearer, then, "why even Serbia, at its own cost has decided to build a refinery." It can be interpreted as though it also wants to have its own refinery, steel mill, automobile factory, tractor factory, and toothpick factory, and that it does everything as a 'bedz' of republic statehood, who wants to stick everything in his lapel before going out to the podium and beginning to speak about the formation of income and a market within republic boundaries.

And, nevertheless, it could not be said that Serbia intends to build "a refinery of spite," as had been stated metaphorically in one of last year's debates, that "you're killing a whole steer to get a kilogram of meat."

Jovanovich also expresses some strategic reasons for a refinery: "It is especially necessary to effect drastic change in the economic structure of the republic. It would be worthwhile to stop the lopsided orientation toward developing a metal-working complex and the textile industry. The projections for the economic development of the republic provide for just this kind of change in the economic structure, and a shift toward the development of the chemical industry, which would also use the available oil shales."

And finally, Serbia has one more official "cover" for a refinery: by agreement of the republics and provinces, refineries. Territories where there are no refineries and where there is need to develop the oil refining and petroleum derivative processing industry have priority in the construction of new refineries.

After this statement by Jovanovic, the public impression was again created that the Executive Council "stood firmly behind the refinery," and that "this was a foregone conclusion."

#### The Position of the Executive Council of Serbia

Ivan Stambolic, President of the Executive Council, thinks that it is very dangerous to create such an impression, and that a part of the blame, in his opinion, rests on the shoulders of journalists. In opening the Saturday session of the Executive Council, Stambolic said: "According to the Constitution and this system, only associated labor is supposed to enact decisions, and nobody

else can hold precedence over it. It is not up to the Executive Council to approve or deny anything..."

Then, Stambolic added that because of this, many problems have arisen within society, and that again "the regions have become uneasy: "All are in favor for the state to be less involved in programming development, and at the same time, we are put under pressures and dozens of meetings are held daily on how the state could be involved. However, we withstand these pressures, for this is our job, and and this is what we are paid for." [Quotes as published]

According to this, the Executive Council "not only does not want to stand behind any kind of project from a regular 5-year plan," but it does not even want to "involve itself in the calculations concerning concrete projects" during the outlining of the plan. Only provisional figures are gathered, so that it may, by chance, know how much the 5-year plan will "cost," and how the money will be collected for it.

Has this again come to be the well-known "compression" of the plan, which includes the refinery too? And if, however, the refinery is to be built, is associated labor alone able to organize and accumulate so much money for the construction of this project? For, at last year's prices, according to some calculations, a refinery would cost about 4.5 billion dinars, and the allied facilities of the petrochemical industry alone would cost about 19.5 billion dinars. This is a huge investment for the still unsatisfactory associated labor of the republic, whose interests concerning the refinery are still divided, if not in direct conflict. Without doubt, there will also be need for foreign credits and "useful pressures" on domestic bank consortiums... Will associated labor be able to bring all of this to a conclusion?

Mile Vel'kovic, President of Leskovac Opstina, had a suitable answer to this question at the time that we were discussing the refinery:

"It is said that the associated labor of the entire republic has to decide upon the construction of large projects. Naturally, that is how it has to be. However, I ask you to count the number of large projects that the associated labor of the entire republic has decided on so far. [unintelligible phrase--possible line drop]...activity for building a refinery. And that someone would have to be the Executive Council.

Along with the problem of financing the refinery, the question of the location of this strategic facility will also be posed. The candidates are again the same ones from Smederevo to Leskovac. The regions do not want to relinquish it just like that. But at the same time, an opportunity for progress of the entire region is being offered, and at the same time, a refinery is being constructed in Serbia, and who knows when and where there will be another way to go.

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## PROBLEMS OF STEEL INDUSTRY ANALYZED IN INTERVIEW

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1572, 15 Feb 81 p 16-17

[Interview with Petar Dodik, Chairman of the Business Board of the "Zenica" Combine, by Jut Grizelj]

[Text] Every survey which we conducted among citizens, even among those who are considered to be well informed, showed without a doubt that the average Yugoslav is confused with respect to the basic question of our foreign trade imbalance: it is not oil and its price increase that are to blame most, as all of are convinced. Oil is talked about the most, since it is something new for us, but it is not the only cause. The foreign exchange funds that are allocated every year for steel purchases are substantial. In 1979 (the accounts for 1980 are still not publicly available) Yugoslavia allocated about 3 billion dollars for the import of oil and its derivatives, and a total 6 billion dollars for steel imports! If the Yugoslav steel industry had succeeded in producing its planned 6.5 million tons of steel instead of 4 million--steel imports would have amounted to only 2 billion dollars, which means that we would only have had a 2 billion dollar foreign trade balance deficit. For example, this means that we would have been able to use these saved foreign exchange funds to buy more than a half of our oil [needs] without great difficulties.

This calculation, which was just as simple as it was serious, was provided to us by Petar Dodik, Chairman of the Business Board of the Zenica Mining and Metallurgical Combine and is based on official data and national balance sheets.

[Question] Of those planned 6.5 million tons of steel, Zenica was supposed to have produced 2.6 million, and according to some projections, as much as 3 million tons. Instead, it produced 1.5 million tons. Those familiar with the circumstances say that Zenica itself could save about 200 million dollars, and the Yugoslav metallurgical industry could save about 700 to 800 million dollars if the plan assignments were fulfilled. What happened?"

[Answer]: Nothing has "happened," or in any case, nothing happened during the course of production. What did "happen" has already been going on for many years, and is no surprise either to the economists or to the planners. In order to produce 2.6 million tons of steel, the planned capacities both for ore processing, and other work, must be built so that the mines can be ready to produce the necessary quantities of iron ore. Only during the course of last year, nearly one-fourth of the capacity was permanently inactive at Zenica because of raw material shortages!

[Question] If we understood you right: all those concerned could have anticipated ahead of time that this would happen. How about the final processors who do not have steel and the planners who are organizing production. How did this happen?

[Answer] This is difficult to explain. If it was known that 5-6 or more years were needed to complete the investment construction in the steel industry, and if it was known that just as much time were necessary for modernizing the mines, then it is really strange for anyone to be surprised today that we have no steel, since we have been visiting all the institutions in the country for years, and we have pestered everyone with our questions as to how we got into this kind of situation in which we are not even in a position to provide for simple reproduction, to say nothing of expanded reproduction. Nothing has "happened today" rather, it happened 5-6 years ago, when a fantastic outflow of income from the steel industry came about as a result of the decisions of the Federal Executive Council. We, in Zenica, have accounting sheets that show that during the past 10 years (since the time that it was decided that the price of raw steel was to be set on the basis of the price for this product on the FRG domestic market), about 1 trillion old dinars were siphoned off from our combine alone, and this is money with which we could have finished off all our production lines in Zenica and modernized the mines.

[Question] Why is it easier for you to buy ore in India rather than in Ljubija? Do we have sufficient iron ore?

[Answer] We have enough for at least the next 50 years. Our iron ore reserves reach 800 million tons. However, the ore does not come out of the depths of the earth by itself. It is necessary to extract it, and this has to be done with modern equipment. And how are you going to extract it when you do not even have money to pay miners? Well, as long as foreign exchange was available, then even India was closer than Ljubija.

[Question] How does Yugoslavia rank in Europe as a steel producer?

[Answer] Regrettably, as negligible force. Everywhere in the world (both in the East and the West), the degree of development of a country is measured by the tons of kilograms [sic] of steel produced per capita. [sentence as published] Steel is the basis of development of all other branches of the economy; steel is the "infrastructure" of the overall development of a country. The statistics which were compiled recently show that among the 12 European countries (here excluded are the so-called steel superpowers such as the FRG, Great Britain and the USSR) Yugoslavia is compared with, we stand the poorest in the production of steel, with only Turkey behind us!

We fully understand all the problems of the country, but we also think that we have fallen into economic difficulties because we do not have a clear concept of developing the steel industry. Just look at what has happened this time: because of stabilization and because of the great increase in world steel prices, our end producers are no longer able to buy steel from the outside. Recently, they have been turning to us. You can imagine: dozens of our most prominent economic and political officials and members of the government call me on the telephone saying: every day "give us steel, we will have to close factories, because we do not have producer goods. And, what now? We try to give everyone as much as possible. The steel goes directly from the production line into the railroad cars, and then to the factory, but all of this is insufficient. We do not even have sufficient ore; we imported large quantities for years, and the ore just became more and more costly. It is also



horribly expensive because of increased transport costs. We do not even have raw materials for the coking ovens. I told you that one-fourth of our capacity was idle last year, and now what? Already, for years, we have been pointing out that "the moment of truth" would soon arrive, and that there would be a lack of foreign exchange so that everyone would have to turn to domestic sources, and they will be just as they are, inadequate for responding to the total demand.

[Question] What really are the steelmakers proposing?

[Answer] The same thing they have been proposing for many years: to find some kind of mutual system to finance the construction of [expanded] capacities for iron and steelmaking. In the entire world, the steel industry has a specific status: in view of its low capital accumulation capacity, and because without the steel industry, there can be no other industry, either in the West or the East. Through several relief measures, conditions are created to develop this branch, and special benefits, credits, and tax relief are given. Last year, we had to allocate 150 billion old dinars for credit repayments alone. Together with the contributions to the fund for underdeveloped regions, we allocated about 200 billion [old dinars] of our income. We have 3-year credits. We know examples of European countries which grant 99-year credits for the development of the steel industry!

Today, when it is no longer easy to import anything, including steel, I think that it will be necessary to arrive at an agreement, and also on more favorable credit policy measures to develop the steel industry, and agreements on the association of the funds of all those who have interests in steel. For the coming 5 years, at least, we will be paying the price of delay. When I say 5 years, I mean that is the minimum term for building those capacities both of the mines and of the steel mill which will provide the needed 6 to 7 million tons of steel.

[Question] How have your production worker, miner, and foundryman borne this whole situation?

[Answer] I will give you only one fact: It took us dozens of years to build this Zenica factory, and now, only during the last 15 months, 5,000 workers left the steel mill, one-fourth of the total employed. Naturally, many attitudes and stands that we gave them are also going into other enterprises, in Zenica or outside Zenica.

[Question] It is lucky that you did not have greater social upheavals.

[Answer] It was not luck: our workers are truly the flower of the Yugoslav working class, they are conscious of their obligations and the importance of what they are producing for the whole country. Therefore, it is that much harder because they cannot find understanding. Thus, before the end of the year, when all of those cost cuts came about, and when, everyday, dozens of the best specialists, engineers, and highly-skilled workers began to abandon both the steel mill and Zenica, we decided that in spite of all the losses and in spite of all regulations, we would raise wages quite substantially. We notified the Federal Executive Council of this, and I think that this is the one and only case where the Federal Executive Council dealt with the question of a single specific enterprise at one of their meetings. I think, that we were the only enterprise in the country that raised wages counter to the regulations while suffering substantial losses. You know, that we have to break a lot in order to operate. We were also faced with a dilemma as to whether we would



ostensibly stop production and bank the furnaces. However, we are not a textile factory, where we can shut down machines today, and start them up again the next day. We did not stop.

[Question] Good, and where are you today, where do you see a solution?

[Answer] I think that the entire branch is on the verge of an agreement for the joint formation of steel prices, and also for a portion of the price to include the resources for the development of the ferrous metallurgical industry. This part could not be spent for anything else. It would be officially allocated to a special giro-account and would be only for development. Thus, you see, we have achieved something.

The only thing is, it is expensive. How will we compensate for it? We do not have an answer to this question, likewise, we haven't even any answer to the question of why the price of steel has been kept down for years, whereas the prices of many products made of our steel have been permitted to seek their market level.

[Question] Do you think that even one of our "disagreements between republics and provinces had something to do with the difficulties or with the creation of the difficulties in the steel industry?

[Answer] Regrettably, yes. Among other things, to this very day, we have no national agreements concerning the division of labor and the optimal utilization of even that which we do have. Thus, first of all, for years, all of us in the branch have been shortchanging with low prices the branch on which our entire development depends. Secondly: because we had no money, we did not even build the capacities needed for the country, and, finally, nor did we make agreements about how to make efficient use of what we do have...

[Question] All in all, Comrade Dodik, let us finish this interview with a personal question: are you reconciled to the fact that even at the best time, you did not get to head the Combine.

[Answer] You are right. I myself know how it is when someone who jumps into the water and says that if he had known how cold the water was, he would not have jumped. Even I would not have consented to accept my job if I had ever imagined in what kind of situation the steel industry would be. Not because of our people, workers, and specialists, they are the bright light that knows how to suffer and to bear everything. The fact lies in that a person sees what could help them out, and what ought to be done, but he is not in a position to help; he sees what will happen: the country will be left without ore and without steel, but it is impossible to explain this to anyone.

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## BLEAK PROSPECTS FOR AGRICULTURE DETAILED

Belgrade DUGA in Serbo-Croatian No 181, 31 Jan 81 pp 20-21

[Article by Zaharije Trnavcevic: "As Many Songs as You Pay For"]

[Text] Food has always been a topic of the day, but in recent months the talk about agriculture and food has been more striking than previously. They are talked about daily at the dining table and all the way to the parliamentary chambers and benches.

The amount of attention, at least verbal, which is being paid at the moment to agriculture can only be to the good. The reason for the frequent examination of this topic is so striking and strong that there is no way at all to evade it: prices in the market are continuing to rise, and the list of products which are not available is getting longer and longer. We entered the new year with the usual hope that it would be better than the previous one, but neither the shortages nor the high prices are relenting. On the contrary, in the first weeks of 1981 milk and dairy products went up in price, there has been no butter, there is no lard, and an appreciable shortage of poultry meat and eggs is announced.

If it is like that at the beginning, what will it be later on in the year: will the food on our dining table be scarcer and more expensive?

#### Bad Omens: The Area Planted and Plowed Is Small

It can be said at once that no sudden improvement should be anticipated. It is even quite certain that the present difficulties with food will continue. This assessment is based on the fact that the plan for planting wheat was not fulfilled. Instead of 1.7 million hectares, 1.5 million were planted, and that was done late, after the end of the most favorable period. Another adverse circumstance is that the program for deep plowing was catastrophically short. Without that operation we cannot hope for a very good harvest of corn and other spring crops. To put the matter in an even stranger light, this occurred at a time when we have the largest number of agricultural machines so far, including 350,000 tractors.

We should also add to the list of adverse circumstances just in advance of the spring planting season the scarcity of manufactured fertilizers and imported ingredients for manufacturing concentrated livestock feed. In certain regions provision

is being made for issuing fertilizers for the spring "by prescription." Up until recently the dollar funds were not available to import soybean oil cake and fish meal, and the anticipated quantity did not reach Adriatic ports, and it is possible that several poultry and egg farms will vanish once and for all, since in this case the owners would sell off or slaughter the foundation flocks. Should this happen, then the list of products we are already short of would be lengthened appreciably.

#### As Much Music as You Pay For

Analyses and tables which have been published in materials prepared for the November session of the Federal Conference of the Socialist Alliance and the Second Congress on Food suggest the basic conclusion that the root of the present troubles lies in the gap between what was agreed on and what has been done in development of agriculture. Among other things, it was envisaged that more funds would be invested, but when the accounts are drawn up, it turns out that only 60 percent of the anticipated amount was spent!

This figure explains the present shortage and high prices: for a certain amount of money, you get a certain amount of food. We have invested domestic and foreign credits predominantly in industrial plants and have created new jobs. Yesterday's producers of food have been leaving their farms and becoming food consumers; the demand has risen, and production has been lagging. It was anticipated in the balance sheets of the last 5-year plan that production would increase 4 percent every year, but we achieved a growth of only 1.6 percent.

In many opstinas, probably under the pressure of the problem of unemployment, people literally did not see the farm fields for the factory chimneys--rural areas and agriculture were overlooked as an area for possible lucrative investments that would show a rapid return. That is how it happened that we spent too much money on projects which were supposed to process raw materials of foreign origin and not enough in agriculture, which uses "domestic driving power" and our own raw materials in the form of sunlight and water. To compound the trouble, the pattern of distribution of those curtailed investments was not favorable, since considerably more was spent on various structures--"walls," as it is put in banking jargon--and too little in primary production. That is why we have a great many slaughterhouses and little livestock, an adequate number of plants for canning fruit, but not enough of the raw materials. Negligible funds were spent to make plowland fit for reliable and abundant production and able to withstand a lengthy drought even under the most unfavorable conditions.

It is clear that the first step in the present efforts to correct the supply situation might be in the form of larger investments in agriculture. However, the trouble is that the banks do not have capital available for this. Credits granted for miscellaneous industrial projects, some of which have not been completed because of cost overruns and have been mothballed for a certain time, are slow to be repaid, so that it is not clear whether it will soon be possible to accomplish any appreciable change of direction in investment to conform to the strategic priority long ago established in which agriculture was given a priority status immediately after raw materials and energy.

## How To Stop the Neglect of Farmland?

Even with the investments that have been made we might have had more food if all the plowland had been used in exemplary fashion. At the moment we have an unusual picture in agriculture: on the one hand are the large socialized farms and a small number of private farmers who are recordbreakers who can be put among the best farmers in the world, and on the other sizable areas of land which is neglected and uncultivated. The figure of 600,000 hectares we are not cultivating has been mentioned. If only a mediocre yield of 2 tons of wheat had been harvested from that tremendous area, we would not have to import wheat. We would even have some to export.

Here we should add the considerably larger area which we cultivate poorly--farms owned by households consisting only of elderly people, households which derive only part of their income from agriculture, and farmers who have gone abroad where the earnings are larger and easier to obtain. The precise dimensions of this phenomenon have not yet been examined, which demonstrates that it is being underestimated. A study of any seriousness would require a precise X-ray picture of rural areas, which would show to what extent the rural population has aged, how many "third callers" [that is, in the third and last group to be called up in a mobilization] there are--farmers over age 50 who are not able (or have no motivation) to apply present-day technological procedures. If we are to conduct a more effective policy, we must first know with whom we are dealing, and then decide how.

## Plow, or Let Someone Else Plow

In any case we dare not look on indifferently any longer while owners of farmland violate for years the constitutional provision that they must make proper use of it as a resource of general importance.

Up to now an appropriate land policy has not been conducted in the republics and provinces except for SR [Socialist Republic] Slovenia. Laws are now being prepared, or have already been enacted, which will introduce a bit more order. We say "a bit more," since the measures envisaged in the bill on use of farmland in Serbia, we are convinced, do not guarantee major changes. Thus it anticipates the possibility of taking away from an owner who has not competently used his land for two farming years and to have it cultivated at his expense by someone else (cooperative or individual).

Perhaps in addition to this or a somewhat more stringent measure (such as taking the land away after 1 year of poor use and turning it over to someone else for a period of 5 years) additional taxation of all landowners should also be introduced. This tax measure might signify greater responsibility for this ownership. It would put many owners in a situation of having to choose: either to maintain ownership of the land and make better use of it so as to have an easier time paying the additional tax, or to convey it or lease it to a more competent user.

## Education of the Peasants Has Been Omitted in Official Documents

This proposal only appears to be based on the conviction that farmers, like everyone else, are sensitive when someone reaches into their pockets, but actually it



has a deeper meaning. That is, the revenues collected from this additional taxation would in practice be returned to the farmers and to agriculture. They would be used first of all to buy land, to clear and otherwise prepare land, to cover low interest on loans taken by private farmers, and for similar purposes oriented toward larger food production.

A tax is an unpopular measure, but this kind of levy would probably be accepted by private farmers that live exclusively by tilling the land.

The problem of agriculture is very complicated, and it is clear that from now on all the issues must be resolved more effectively and rapidly.

Among others there is the issue of organizing the private farmers themselves. Only one out of seven is involved in an association. Everyone has the last word concerning the form, location, key people and even the name of the association, except for the private farmers themselves, who have the least influence, even though they are the ones to bear all the material consequences of a possible failure in business operation. We still have large areas with a feeble network of cooperatives and organizations of cooperators. Many private farmers have for all practical purposes been cut off from the market, and they are compelled to see customers going with their basket from market to market.

Assuming that small holdings are better organized and bound more firmly into large systems, in the coming period we also need an educated private farmer. It is certain that educated peasants will see that their interest lies in a joint effort and joint use of the land and implements. However, it is interesting that this fact has not been mentioned or has only superficially been touched on in the documents which have been the subject of serious discussions. Probably that is why no one is offering the private farmer today any incentives for schooling or for preparing his children and an heir. Slovenia is an exception: in 10 years or so most of the farms in that republic will be headed by peasants who have graduated from a secondary school or junior college for agriculture.

At present there are neither resources nor instituted funds for any serious effort to educate private farmers. In actuality it only seems that they are not available. We feel that instead of the large compensation which the cities are making for better supply, a portion of that money should be set aside for these purposes. We are also missing an opportunity when we adjust wholesale prices to hold back at least one-tenth and to "pay" the peasant in the form of free training, more professional assistance, excursions, various visits and similar undertakings that allow them to see with their own eyes and thus become equipped to be modern farmers. In this way the private farmers would themselves bear a portion of the costs for their vocational training, which is indeed natural. The way it is now, the entire amount paid to raise the wholesale price of milk and meat is spent for purposes outside of production. That is why these adjustments have no major or lasting influence on the growth of production.

A series of discussions of agriculture (a meeting of the Central Committee of the League of Communists of Serbia has been scheduled for 2 February on the topic of agriculture) shows that a kind of sobering up has begun. There is a slacking off



of the "passion for industry" in which we lost a measure by which to judge reality. It seems now that we are again discovering the possibilities that we have in agriculture and the obligation to develop proportionately all the sectors of the economy and not just one at the expense of the others.

There are even signs that the discussions will be followed by actions and major changes of direction in accordance with the projection that has been adopted to the effect that during this 5-year period food production is to be increased sufficiently for us to forget about shortages and imports from other people's silos and at the end of that period to become regular and not just random suppliers of food surpluses in an amount that might bring in \$2.5 billion.

Today, when we are still suffering from shortages and high prices, this figure seems unreal and unattainable. But for precisely that reason we must begin without delay, without underestimating even small efforts and steps in that direction.

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